

# ANNUAL REPORT 2019



# ALZCHEM AT A GLANCE

INNOVATIVE SINCE

# 1908

# ~ € 376 mn

sales generated by AlzChem  
in the fiscal year 2019

Calendar year 2018: ~ € 375 mn



# 1,623

employees support the processes  
and products of AlzChem with their  
know-how on a daily basis\*

Calendar year 2018: 1,562

\* Average number over the fiscal year 2019

# ~ € 50.1 mn

EBITDA achieved by AlzChem  
in the fiscal year 2019

Calendar year 2018: ~ € 49 mn

## MARKETS



NUTRITION



FINE CHEMISTRY



AGRICULTURE



METALLURGY



RENEWABLE  
ENERGY

# € 1.77

earnings per share in the fiscal year 2019

Calendar year 2018: € 2.23

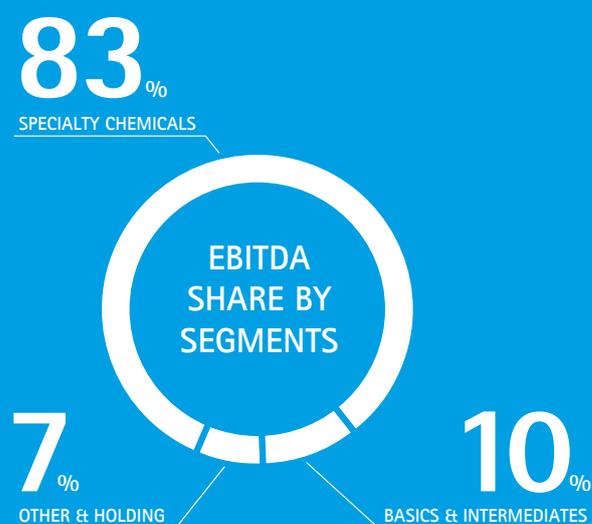
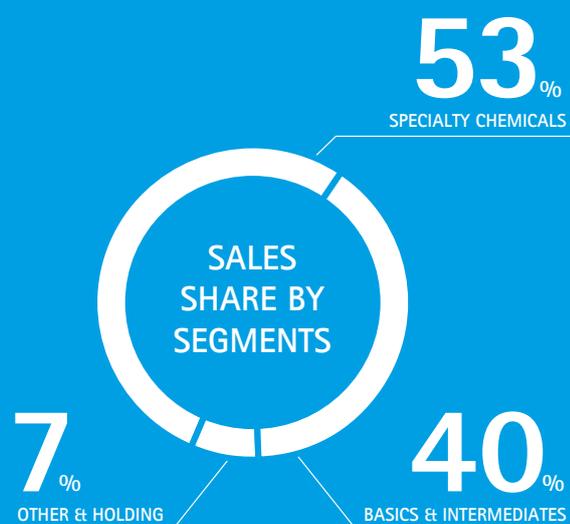
# KEY FIGURES

In EUR thousand	2015	2016	2017	2018 <sup>a)</sup>	2019	CAGR <sup>b)</sup>
External sales	322,554	327,185	353,920	375,217	376,072	4%
EBITDA	33,164	38,614	45,668	49,379	50,078	11%
Depreciation and amortization	-12,098	-13,033	-13,990	-15,187	-19,492	
EBIT	21,066	25,581	31,678	34,192	30,586	10%
Inventories	58,471	64,052	71,382	78,856	74,607	
Inventory ratio	18.13%	19.58%	20.17%	21.02%	19.84%	
EBITDA margin	10.28%	11.80%	12.90%	13.16%	13.32%	
Consolidated net income	15,370	15,283	20,572	22,783	18,147	4%
Earnings per share in EUR (undiluted and diluted) <sup>c)</sup>	1.50	1.50	2.00	2.23	1.77	4%

a) The full-year figures for the period from January 1 to December 31, 2018 are calculated by adding the audited figures for the two short fiscal years from January 1 to June 30, 2018 and July 1 to December 31, 2018.

b) CAGR = Compound Annual Growth Rate (final value/start value)<sup>(1/number of years)</sup>

c) converted to the current number of shares (10,176,335 shares)



# SPECIALTY CHEMICALS SEGMENT

## BUSINESS ACTIVITIES

Production and distribution of high-quality chemical products

## OVERVIEW

SALES in € mn

200

EBITDA in € mn

42

## KEY FIGURES

In EUR thousand	2015	2016	2017	2018*	2019
External sales	164,162	169,222	185,681	209,414	200,022
EBITDA	32,732	39,245	42,709	50,692	41,684
Depreciation and amortization	-4,938	-4,941	-5,061	-5,113	-6,930
EBIT	27,794	34,304	37,648	45,579	34,754
Inventories	32,474	37,355	44,315	49,672	44,183
Inventory ratio	19.8%	22.1%	23.9%	24%	22%
EBITDA margin	20.0%	23.2%	23.0%	24.2%	20.8%

\* The full-year figures for the period from January 1 to December 31, 2018 are calculated by adding the audited figures for the two short fiscal years from January 1 to June 30, 2018 and July 1 to December 31, 2018.

## KEY BRANDS

**CREAMINO**

**Bioselect**<sup>®</sup>

**Dormex**<sup>®</sup>

**LIVA  
DUR**<sup>®</sup>

**Creapure**<sup>®</sup>

**Silzot**<sup>®</sup>

**DYHARD**<sup>®</sup>

# BASICS & INTERMEDIATES SEGMENT

## BUSINESS ACTIVITIES

Production of chemical intermediates for direct sale or refinement as specialty chemicals products

## OVERVIEW

SALES in € mn

149

EBITDA in € mn

5

## KEY FIGURES

In EUR thousand	2015	2016	2017	2018*	2019
External sales	134,791	133,592	140,869	139,966	149,408
EBITDA	-777	6,961	5,592	-889	5,247
Depreciation and amortization	-3,361	-3,859	-4,334	-4,983	-6,656
EBIT	-4,138	3,102	1,258	-5,871	-1,409
Inventories	24,758	25,308	26,091	28,125	30,924
Inventory ratio	18.4%	18.9%	18.5%	20%	21%
EBITDA margin	-0.6%	5.2%	4.0%	-0.6%	3.5%

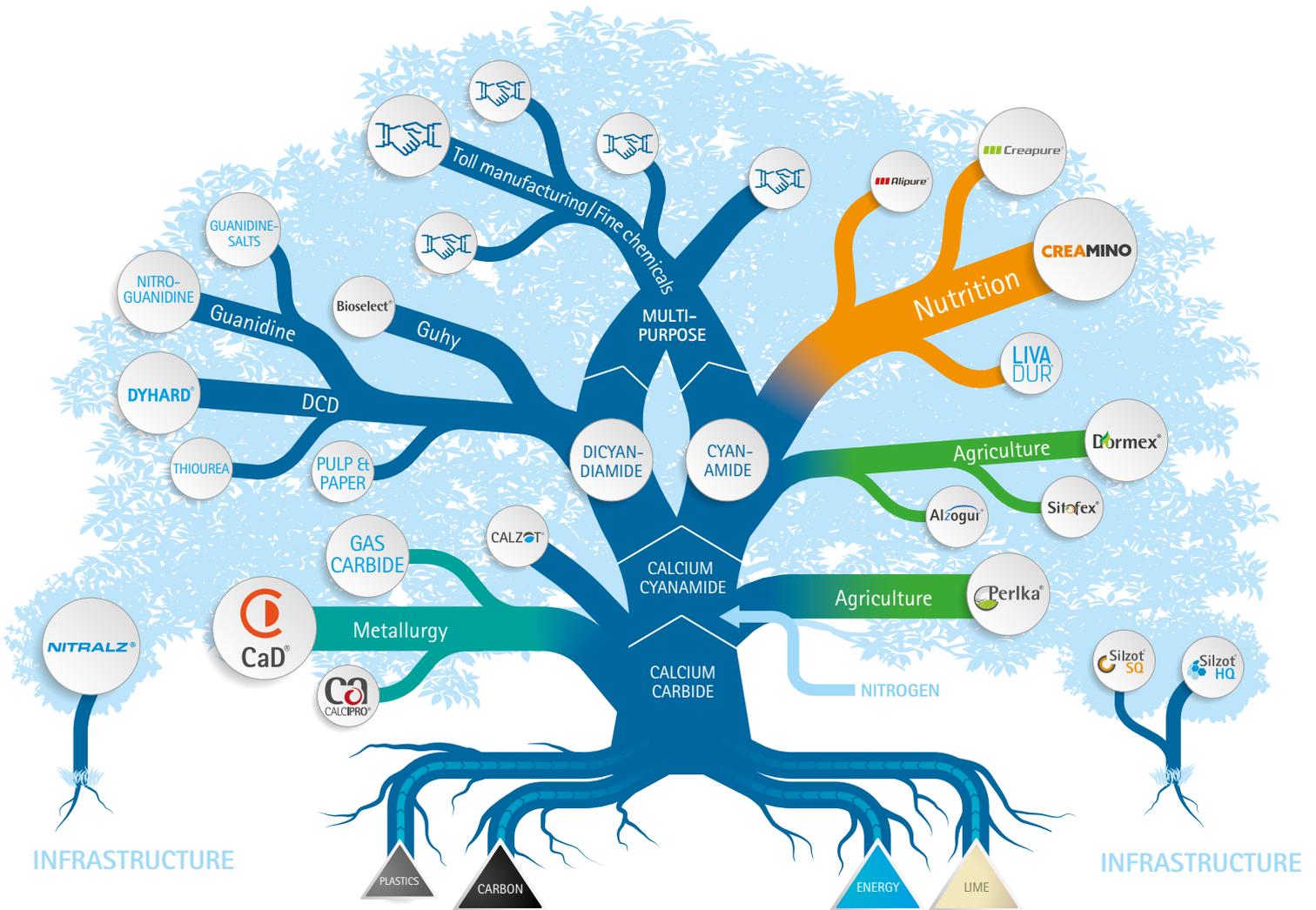
\* The full-year figures for the period from January 1 to December 31, 2018 are calculated by adding the audited figures for the two short fiscal years from January 1 to June 30, 2018 and July 1 to December 31, 2018.

## KEY BRANDS



NITRALZ®

CALZOT®



# OUR VISION

Based on our integrated "Production Verbund" and with innovative chemistry, we deliver customer-oriented applications to selected markets.

## COMMITMENT TO THE NCN CHAIN:

We say a clear "yes" to carbide and the "Production Verbund" based on it, which forms the basis and strength of all our activities.

## ADDED VALUE FOR OUR CUSTOMERS:

We sell solutions, not molecules. To this end, we work closely with our customers to identify their improvement potential early on and focus our activities on it.

## GROWTH:

We focus on innovation. The creation of new business areas, the development of profitable markets and the optimization of our value chain is our daily maxim.

## FOCUS:

We focus on a few clearly defined target markets. We want to grow in these markets and be the preferred supplier for our customers.

## "VERBUND PRODUCTION "

The main products of the AlzChem Group are based on the same raw materials, namely lime and coal. Along the calcium carbide/calcium cyanamide (NCN) chain, AlzChem integrates many processing and refining steps to create the respective products in the Basics & Intermediates and Specialty Chemicals segments.

This vertical integration in production is a key strength of the AlzChem Group. It is only made possible by the geographical proximity of the four historically grown sites in the Bavarian Chemical Triangle. The "Verbund Production" allows AlzChem to react flexibly to changes in demand, as many products from the Basics & Intermediates segment are also raw materials for products in the Specialty Chemicals segment. In addition, there are various synergies in the production process and in research and development. The "Verbund Production" secures the company a high degree of independence from external suppliers.

# OUR PRINCIPLES OF CONDUCT

We build on principles of conduct to realize our visions:

## Strengthening mutual trust...

... through reliability, fairness, timely information and open communication, as well as obtaining and giving feedback

## Entrepreneurial action...

... to pursue the objectives of AlzChem. In doing so, we assume responsibility with our decisions

## Striving for the highest quality...

... for us, mistakes are also the chance and obligation to learn

## Development of constructive solutions...

... working together on solutions and implementing the decisions made

## In dialog with our business partners and the public...

... we search for responsible and attractive solutions

# SUSTAINABILITY AT ALZCHEM



## ENVIRONMENTAL PROTECTION

Our main goals in environmental protection are the reduction of energy use, the reduction and prevention of waste, the protection of waters as well as immission and noise control. Our current environmental program with clearly defined goals and measures can be found in the annual environmental statement, which is published on our website [www.alzchem.com](http://www.alzchem.com) in the „Quality & Environment“ section. Concrete CO<sub>2</sub> targets will be developed in 2020 as part of a project.



## EMPLOYEE MATTERS

Our employees are the key to our sustainable success. Therefore, it is particularly important to us to offer them a stable and interesting environment: through flexible working hours, attractive remuneration, job security, health management with the “gesund punkten...” campaign, idea management and company pension schemes.



## SOCIAL MATTERS

As a company with regional roots, we assume responsibility, especially in the direct vicinity of our locations. We promote children and youth projects, support school projects and are a member of the non-profit association for the promotion of education and entrepreneurship in Germany, the Wissensfabrik. In this way, we make our contribution to social interaction.

## COMPLIANCE

The integrity of all actions is an essential prerequisite for sustainable successful business. It is therefore our declared goal that our entrepreneurial actions comply with all social guidelines and core values. This includes in particular the observance of human rights and the fight against corruption and bribery.



## SAFETY

We do not only want to be economically successful, but also a good partner, employer, trainer and neighbor. Based on this self-image, we also assume responsibility for the safety and protection of our environment. Through appropriate plant and occupational safety, information security, IT compliance and legal conformity - elementary components of responsible entrepreneurial action.



## SUPPLY CHAIN

Corporate social responsibility also has a high priority in our supply chain. For this reason, we have subjected ourselves to an independent CSR rating by the globally active assessment platform EcoVadis, among others. In addition, we ensure in the area of purchasing/supplier approval that company-wide standards are observed in the procurement of our raw materials.



# LIVADUR®

— THE FIRST END CUSTOMER PRODUCT  
OF ALZCHEM GROUP AG



Strengthens the  
muscular system



Boosts  
performance



Improves  
fitness

To grow old without feeling old - that is the wish of many people. A diet that meets your needs and, in particular, regular training can do a lot to make this wish come true. In addition, scientific studies show that people at midlife can benefit particularly effectively from taking creatine as a dietary supplement. With LIVADUR®, AlzChem Group AG has been offering the first pure creatine product manufactured in Germany for the target group aged 55 and over since March 2019. The dietary supplement supplies the body with premium quality creatine in the right dosage and is therefore an ideal recommendation for all women and men who want to do something to maintain and improve their vitality and strength.

As early as April 2017, the European Commission followed the scientific opinion of the European Food Safety Authority (EFSA) for a new creatine health claim submitted by AlzChem, stating:

**"The daily intake of creatine can increase the effect of strength training on the muscular strength of adults over 55 years of age."**



With LIVADUR®, which is available in every pharmacy throughout Germany, AlzChem Group AG is opening up another important stage in the value chain by addressing the end customer directly for the first time. AlzChem sees excellent market opportunities and attractive margin potential in this area. For this reason, the product, which specifically addresses the megatrend of healthy aging, is also to be internationalized in the future, especially in the US and Chinese markets. LIVADUR® has the potential to become an important pillar in the product mix with a noticeably positive sales and earnings contribution in the medium term.

## STRENGTH THROUGHOUT THE DAY





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## 100 PERCENT MADE IN GERMANY

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For the creatine used for LIVADUR®, we focus on best quality and highest purity. To ensure the quality, LIVADUR® contains only creatine from our own production. The creatine is therefore 100% Made in Germany. Our creatine production is subject to strictest quality standards and regular quality controls. Therefore, we can guarantee highest quality.

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# INTERVIEW WITH THE MANAGEMENT BOARD

IN VIEW OF A 5% DROP  
IN SALES IN THE GERMAN  
CHEMICAL INDUSTRY, 2019  
MUST BE CONSIDERED A VERY  
CHALLENGING YEAR.

**Dr. Georg Weichselbaumer:** We are in the fortunate situation that, thanks to our specific focus on products with a typical nitrogen-carbon-nitrogen bond, we are able to generate a very extensive business cycle of our own. Our products and solutions are used in a large number of very different industries, and we are generally one of the market leaders in these areas, which means that we are able to decouple ourselves positively from the chemical economy.

**Andreas Niedermaier:** In concrete terms, this means that we were even able to grow slightly with sales of EUR 376.1 million - despite the strategic decision to switch to our own worldwide distribution for our most promising product Creamino® and thus deliberately forego sales in 2019. More importantly: we were able to further increase our operating profitability, improve EBITDA by 1.4% to EUR 50.1 million and thus meet our profit forecast from the beginning of the year.

In terms of sales, we had originally planned to grow slightly more strongly. Even though we were able to decouple ourselves from the downturn in the chemical industry, the continuing weakness of the automotive sector and the solar industry has somewhat dampened our growth. We have met our sales forecast, which was adjusted during the year.

HOW DID THE CONTINUING  
RISE IN ENERGY COSTS  
AFFECT YOU?

**Klaus Englmaier:** Indeed, market electricity prices have followed the rising market prices of CO<sub>2</sub>. We were able to decouple ourselves from this to some extent, as we regularly buy future electricity bands to secure our planning. As a result, our electricity prices were stable to slightly declining. Raw material prices remained at a high level despite the economic slowdown. However, we also benefit here from our special market position in the respective niches. This enabled us to pass on the rising raw material prices to our customers in the form of higher sales prices.

**Niedermaier:** Of course, you always have to take into account a small time delay. Since we are also applying very strict cost management, we were able to increase our operating profitability as planned.

AT THE SAME TIME,  
YOU HAVE CONTINUED TO  
INVEST SUBSTANTIALLY IN  
2019. WHAT CAN WE  
EXPECT HERE?

**Niedermaier:** At EUR 41.4 million, investments were even slightly above the record level of the previous year. Nevertheless, we were able to generate a significant positive free cash flow of EUR 2.3 million in 2019.

**Englmaier:** In 2019, we completed the largest investment project in our company's history, the new Creamino® plant, with a total volume of EUR 50 million. We were able to meet all budget targets - both in terms of time and cost. After the commissioning, the plant proved to meet or even exceed all the requirements placed on it.



From left to right:  
Dr. Georg Weichselbaumer (CSO)  
Andreas Niedermaier (CEO)  
Klaus Englmaier (COO)

**Dr. Weichselbaumer:** Our second major investment project, the expansion of the nitrile production, was also successfully implemented. As a result, we are now able to produce not only more quantities but also products of higher quality. We also stayed within our cost budget for this project. Our own team was able to optimize the plant considerably at the beginning and could contribute this know-how accordingly in case of a further expansion. Since we achieved 100% capacity utilization from day one, the question of when we will expand the nitrile production again is already being asked. After all, current market demand also significantly exceeds our new total capacity.

CREAMINO® WAS NOT ONLY  
YOUR BIGGEST INVESTMENT  
PROJECT. AT THE SAME TIME,  
YOU ALSO SWITCHED TO  
OWN DISTRIBUTION?

**Dr. Weichselbaumer:** The importance of Creamino® in terms of additional growth opportunities for our company in the future cannot be overestimated. Therefore, it was important that we were able to implement the new plant and the complete setup of our own distribution in 2019 so well. All those involved can also be proud of this. We are full of positive expectations that we will be able to see the new momentum and further results as early as 2020, especially from the second half of the year.

SO THE NEW SALES  
STRUCTURE IS ALREADY IN  
PLACE?

**Dr. Weichselbaumer:** Yes, we have achieved all the targets we set ourselves for 2019 when we switched to our own distribution. We now have our own sales force in Europe and the USA. In the other international regions, we work with the best regional partners in each case. The structure is in place, the team is complete, all major approvals have been obtained and customer feedback is consistently positive.

The feedback from the market and customers is crucial. This is because we have also further developed our sales approach: even more towards consulting - with a strongly scientific approach and always in close cooperation with our customers. The true potential of our own sales force only becomes apparent when we and our own team work out the added value of our product for customers even more and offer individual solutions.

**Englmaier:** For this reason, we are conducting joint test series with our existing and potential customers to provide concrete proof of the effect of Creamino® in customized designs. With Creamino®, we offer our customers a feed additive and an energy source that increases meat yield, improves the animals' immune system, and thus makes a significant contribution to climate protection in addition to the economic arguments. This sales approach is a bit more time-consuming, but ultimately makes us an irreplaceable partner. Our strategic objective is to make Creamino® the global standard in animal feed supplements for poultry.

**Niedermaier:** In 2019, our main focus was to ensure a smooth transition for customers during our switch to own distribution. This has worked very successfully. Since this year, we can now also concentrate on addressing the additional growth potential. Thanks to the customer-specific, scientifically based test series, which can last 12 to 15 months, we are now in a position not only to simply continue our existing business, but above all to expand it significantly.

**Englmaier:** In general, Creamino® is suitable for all farm animal species. However, our current focus is on the chicken market, where we already have a long-standing reputation and many existing customer relationships. At the same time, the global market potential is enormous. We currently see it at between 100,000 and 200,000 tons per year, of which we ourselves only cover 21,000 tons. This means that we are only just beginning to exploit the huge market potential that already exists today. At the same time, this market is growing because the numbers in poultry farming are rising steadily worldwide.

IS THIS APPROACH LIMITED TO CHICKENS?

**Dr. Weichselbaumer:** Our scientifically based sales approach, however, is already based on the basic idea that the test series can also be transferred analogously to other animal species and that each individual case provides new proof of the positive contribution Creamino® makes. The next species on our agenda are laying hens and pigs. Here, we will gradually develop the corresponding markets and regions from 2021.

**Niedermaier:** No, we do not, because we expect a stable growth curve for the next few years. We are sure that Creamino® will become the standard in feeding in the very long term.

SO DO WE HAVE TO BE PATIENT UNTIL WE SEE THE FULL POTENTIAL OF CREAMINO®?

**Niedermaier:** You mentioned "patience" earlier. With LIVADUR®, we need exactly this patience. This is not because the development in 2019 would have been too slow, quite the contrary. Instead, it is because we have made a conscious decision to market this new product, which is a nutritional supplement for more performance and zest for life for people aged 55 and over, to end customers ourselves for the first time. Specifically, we expect a significant positive impact on our sales and profit development in two to three years' time - without any major burdens in the start-up phase.

ANOTHER PRODUCT WITH STRONG FUTURE PROSPECTS IS LIVADUR®. WHAT HAS HAPPENED HERE IN 2019?

**Dr. Weichselbaumer:** LIVADUR® is sold exclusively through pharmacies. Here, we have made great progress in 2019: LIVADUR® is already available in every pharmacy in Germany. The logistics chain is in place and availability is guaranteed. Now, as a second step, we inform and train pharmacy staff all over Germany. All of this is accompanied by PR and marketing measures. However, we are deliberately avoiding large media budgets and are instead proceeding step by step. Parallel to Germany, we are also already active in China. There, a particularly high affinity exists for high-quality food supplements "Made in Germany". The next market on our agenda is the USA. Here, we are first taking a targeted regional approach. A separate company for the marketing in the US area has already been started.

**Englmaier:** We do not only observe, but above all, we are very active. Not just since today, but for more than 20 years. In the beginning, mainly for economic reasons, but today, we are also very strongly influenced by climate protection, resource conservation and sustainability. Our "Verbund Production" does not only ensure the availability of top-quality primary products and maximum added value. Above all, it also guarantees us seamless control of the value chain and gives us the opportunity to focus quality along our NCN chain specifically on the sales products. As of today, there are almost no substances from our "Verbund Production" that have to be deposited in landfills. Instead, almost everything is processed and used in corresponding by-products.

AS A SPECIALTY CHEMICALS COMPANY, YOU ARE CERTAINLY OBSERVING THE RAPIDLY GROWING IMPORTANCE OF SUSTAINABILITY AND CLIMATE PROTECTION VERY CLOSELY?

**Niedermaier:** Sustainability and resource conservation have therefore long been an integrated topic in our "Verbund Production". What we are now pushing even harder is a systematic approach that ultimately also leads to specific CO<sub>2</sub> targets. In our carbon footprint, it is particularly important to bear in mind that our products in some cases already enable significant CO<sub>2</sub> savings in use. For this reason, we also consider a positive CO<sub>2</sub> footprint of our production to be realistic in the future.

WHAT EXACTLY CAN WE EXPECT FROM ALZCHEM GROUP IN 2020? THE GERMAN CHEMICAL INDUSTRY IS ANTICIPATING AN IMPROVEMENT COMPARED TO 2019, BUT STILL NO GROWTH.

**Niedermaier:** We are much more positive about this and want to continue to grow in 2020. Sales growth will be organic. Creamino® is an important driver, especially from the second half of the year. We want to keep the EBITDA margin at least stable in 2020.

**Dr. Weichselbaumer:** However, growth will not be limited to individual products, but will be driven by all segments. In the Specialty Chemicals segment, our goal is not only to expand the Creamino® business, but also to successively convert our well-filled R&D pipeline into new products. In the Basics & Intermediates segment, our product NITRALZ® could become another major growth driver. However, I also see the agriculture and metallurgy sectors as at least stable. The still planned expansion of the product range offers concrete opportunities here. The development in the automotive sector remains subject to some degree of uncertainty. Some experts doubt whether some kind of recovery will set in as early as 2020.

**Englmaier:** In this environment, we continue to rely on our own strengths. Our products have such strong growth potential that we intend to consistently continue our positive business trend.

# REPORT OF THE SUPERVISORY BOARD

Dear Ladies and Gentlemen,  
dear shareholders,

2019 was another successful year for AlzChem - both in terms of achieving the goals set and paving the way for a sustainably promising future. Above all, we have made progress in positioning our company as a fast-growing and strongly profitable niche supplier with a focus on specialty chemical products. This is primarily due to the expansion investments initiated by the company as early as 2017, which we are convinced will enable AlzChem to strengthen its own market position and competitiveness on a sustained basis.

## FOCUS OF THE SUPERVISORY BOARD'S WORK

In the year under review, the Supervisory Board paid particular attention to the Creamino® investment, which was successfully completed in 2019 with the construction of the new production plant. We will continue to closely monitor this key growth project in the future.

In addition, our nitrile investment in 2019 serves the purpose of making AlzChem fit for the future by significantly expanding and modernizing its production capacities. Naturally, the Supervisory Board has also intensively dealt with this issue.

We are pleased to report that, despite the difficult environment, especially in the second half of the year, the company succeeded in maintaining sales of EUR 376,072 thousand at the level of the previous year. It is particularly positive that AlzChem was even able to slightly improve its EBITDA to EUR 50,078 thousand compared to the previous year, thus increasing the company's profitability overall. The Supervisory Board intensively monitored this development throughout the entire fiscal year 2019 and closely followed it together with the Management Board.

## CHANGES IN THE MANAGEMENT BOARD

For AlzChem, the fiscal year 2019 was also marked by significant personnel changes: At the end of the fiscal year, after more than ten years in the service of our company, Ulli Seibel resigned his position as Chief Executive Officer for personal reasons in order to devote himself to new tasks. Andreas Niedermaier has succeeded him as the previous Chief Financial Officer. At the request of the Supervisory Board, Dr. Georg Weichselbaumer took over the position vacated on the Management Board. As Chief Sales Officer (CSO), he has since been responsible for all sales areas of the company.

The Supervisory Board dealt intensively with these important personnel issues. At several meetings, we discussed the changes to be made to the Management Board and their consequences. Together, the Management Board and the Supervisory Board succeeded in making the transition absolutely smooth for the company, its employees, customers and business partners.

## OTHER CONTROL AND ADVISORY ACTIVITIES

In the course of the personnel changes in the Management Board, the Supervisory Board changed the service contracts of the Management Board members that were expiring or no longer suitable due to the new position and at the same time extended the Management Board mandates accordingly. On this occasion, the Supervisory Board also made minor adjustments to the existing remuneration system. For example, the stock appreciation rights (= virtual shares) granted to the members of the Management Board as a long-term remuneration component can in future be exercised in tranches during several time windows. In return, all members of the Management Board have committed themselves to acquiring a certain number of AlzChem shares and holding them for a longer period of time. In this way, the interests of both Management Board and shareholders in a positive development of the share price are aligned. The remuneration of the Management Board, which has been reviewed by an external service provider on behalf of the Supervisory Board with a positive result with regard to its appropriateness, continues to comply with the law and the Code.

## WORKING METHODS OF THE SUPERVISORY BOARD

In the fiscal year 2019, the Supervisory Board of AlzChem Group AG performed the duties incumbent upon it according to the law, the articles of association and the rules of procedure with all due care. It advised the Management Board in detail on the management of AlzChem Group AG and the AlzChem Group and continuously monitored the management of the company. At no time did the Supervisory Board have any doubts about the legality and regularity of the activities of the Management Board.

The Supervisory Board continually dealt with the current company situation and the future development of the AlzChem Group. In addition to the focal and personnel issues already mentioned, the Supervisory Board meetings dealt with

the development of sales and earnings, net assets and financial position, investment projects and the budget, personnel planning, the situation (including the risk situation) of the AlzChem Group, the risk management system, compliance, the internal control system and - with a particular focus - corporate planning and strategy. The focus was also on the development of the sales and procurement markets and on securing the long-term competitiveness of the AlzChem Group. In doing so, the Management Board fully complied with its information obligations at all times and informed the Supervisory Board regularly, promptly and comprehensively in written and oral form about all significant developments of the AlzChem Group.



The Supervisory Board of AlzChem Group AG, from left to right: Dr. Caspar Freiherr von Schnurbein, Markus Zöllner (Supervisory Board Chairman), Prof. Dr. Martina Heigl-Murauer and Steve Röper

The Supervisory Board discussed in detail all reports and documents received from the Management Board. Deviations from planning were explained in detail by the Management Board and examined with great care by the Supervisory Board. Transactions requiring approval were duly and promptly submitted to the Supervisory Board by the Management Board. As a result, the Supervisory Board gave its approval to all transactions requiring its approval after thorough consultation.

Outside the meetings of the Supervisory Board and the Audit Committee, the Chairman of the Supervisory Board maintained a regular, intensive exchange of information with the Management Board in order to be kept informed on an ongoing basis of the current business situation and all significant business transactions. This exchange took place at all times in an open and constructive atmosphere.

#### MEETINGS AND RESOLUTIONS OF THE SUPERVISORY BOARD AND COMMITTEES

In the fiscal year 2019, the Supervisory Board held five meetings on February 5, March 19, May 14, August 12 and November 28, 2019; all meetings were conducted in the form of physical meetings. In addition, one resolution of the Supervisory Board was adopted by written procedure.

The members of the Supervisory Board participated in all meetings and resolutions of the body in full.

The Audit Committee, consisting of Prof. Dr. Heigl-Murauer (as Chairman) and Dr. v. Schnurbein and Mr. Zöllner, held a total of five meetings (in two cases by telephone) in the fiscal year 2019 on March 19, May 6, August 12, November 11 and November 28, 2019. The committee examined in detail - taking into account the auditor's reports and in discussion with the auditor - the annual financial statements and management report for 2018 prepared in accordance with the German Commercial Code, the consolidated financial statements and Group management report for 2018 prepared in accordance with the International Financial Reporting Standards (IFRS), and the interim financial reports for the fiscal year 2019. The committee also discussed the proposal to be submitted to the Annual General Meeting 2019 regarding the election of the auditor as well as issues relating to accounting, the internal control system and risk management. In addition, the management report and the Group management report

were discussed in detail, the corresponding recommendations to the Supervisory Board were prepared and the Supervisory Board was informed of the results of the audits. The Audit Committee devoted one meeting entirely to an exchange of views with the new auditor, Ebner Stolz, and the experience and impressions gained by him in the course of his audit assignment.

The members of the Audit Committee attended all meetings and resolutions of the committee in full.

The Nomination Committee consisting of Mr. Zöllner (as Chairman), Mr. Röper and Dr. v. Schnurbein did not hold any meetings in the reporting period. However, it did meet at the beginning of the fiscal year 2020 in order to nominate suitable candidates to the Supervisory Board for its resolution proposal to the Annual General Meeting 2020.

#### ONBOARDING; EDUCATION AND TRAINING

On May 19, 2020, the members of the Supervisory Board will be newly elected by the Annual General Meeting. As in the past, all Supervisory Board members appointed for the first time will be provided by the company with a so-called onboarding package, which will provide information on the corporate structure of the AlzChem Group, its business model and the products sold, among other things. In addition, the company supports the members of the Supervisory Board in the education and training measures required for their work within the framework of the statutory provisions. In the year under review, this included training offered by the company on the technical possibilities of holding virtual Supervisory Board meetings, for example in the form of telephone or video and Webex conferences, and information on the latest developments in accounting, including the new leasing standard IFRS 16. In the fiscal year 2020, it is planned to inform the members of the Supervisory Board about the amendments to the German Corporate Governance Code and the Shareholder Rights Directive Implementation Act II that affect them and the company.

## CORPORATE GOVERNANCE

An integral part of the Supervisory Board meetings of AlzChem Group AG is the implementation of good corporate governance. The Supervisory Board - in close coordination with the Management Board, which is like-minded in this respect - primarily focuses on the standards of good corporate management formulated in the German Corporate Governance Code.

In the fiscal year 2019, the Management Board and Supervisory Board again discussed the recommendations and suggestions of the Code. This year, this was a particular challenge because it had already been apparent for some time that the Code would have to be observed in a significantly modified and also completely revised form by the first quarter of the fiscal year 2020 at the latest. As far as this was possible - also in view of the associated uncertainties about the future content of the Code - the company has already converted its governance structures to the new Code 2020 or at least taken steps to do so as quickly as possible.

In December 2019, the Management Board and the Supervisory Board resolved the declaration of conformity pursuant to sec. 161 AktG and published it immediately afterwards. The declaration - like the older declarations of conformity - is available at all times on the Internet at [www.alzchem.com](http://www.alzchem.com) in the Investor Relations section. Pursuant to section 3.10 GCGC 2017/principle 22 GCGC 2020, the Management Board reports on the company's corporate governance - both for itself and for the Supervisory Board - in the form of the corporate governance report summarized in the corporate governance declaration contained in the annual report.

After the Supervisory Board last reviewed the efficiency of its own work in the (short) fiscal year 2018/II, no new review was carried out in the fiscal year 2019. However, such a review is scheduled to take place again as a matter of routine for the fiscal year 2020.

In the period under review, no conflicts of interest arose among the individual members of the Supervisory Board or the Management Board that would have had to be disclosed to the Supervisory Board.

## AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The annual financial statements of AlzChem Group AG were prepared in accordance with the rules of the German Commercial Code (HGB), the consolidated financial statements in accordance with the principles of the International Financial Reporting Standards (IFRS). For the fiscal year 2019, the company prepared a combined management report for AlzChem Group AG and the Group for the first time. In accordance with the resolution of the Annual General Meeting on May 14, 2019, the Supervisory Board appointed Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Munich branch, for the audit of the financial statements of AlzChem Group AG and the Group for the fiscal year 2019 and in this context also determined the remuneration of the auditor. Furthermore, the Supervisory Board, together with the auditor, determined the focal points of the audit to be performed by the auditor.

The auditor audited the annual financial statements and the consolidated financial statements prepared by the Management Board, including the combined management report, and reported in writing on the results of his audit, which did not give rise to any objections. The annual financial statements and the consolidated financial statements for 2019 received an unqualified audit report from the auditor. In addition, the auditor determined in the course of its assessment of the risk management system that the Management Board had taken the measures required by sec. 91 para. 2 AktG to identify at an early stage any risks that could jeopardize the continued existence of the company.

The Supervisory Board examined the annual financial statements and the consolidated financial statements for the fiscal year 2019 and the combined management report - taking into account the report of the auditor and the results of the preliminary audit by the Audit Committee - for completeness and accuracy. All documents and the audit reports of the auditor were made available to the Supervisory Board in good time and were discussed and examined in detail at the Supervisory Board's balance sheet meeting on March 12, 2020 in the presence of all Supervisory Board members. The auditor reported on the main results of his audit and was available to the Supervisory Board for questions and additional information. In particular, the Supervisory Board examined whether the estimates made by the Management

Board in the combined management report were consistent with the estimates in the reports to the Supervisory Board and whether the statements in the combined management report were in line with the Supervisory Board's own assessment.

After its own thorough review of the documents submitted to it, the Supervisory Board raised no objections to these documents, agreed to the audit reports and the results of the preliminary review by the Audit Committee, and approved the annual financial statements, the consolidated financial statements and the combined management report. The annual financial statements of AlzChem Group AG prepared by the Management Board were thus adopted.

The Supervisory Board discussed in detail the Management Board's proposal to distribute a dividend of EUR 0.75 per share and carry forward the remaining distributable profit to new account in light of the company's liquidity and its financial and investment planning. After an in-depth review, the Supervisory Board agreed with the Management Board's proposal for a distribution ratio of 42%.

In addition, we reviewed and approved the combined non-financial Group statement on corporate social responsibility.

## COMPOSITION OF MANAGEMENT BOARD AND SUPERVISORY BOARD

Following the personnel changes described at the beginning of this report, the Management Board consists of Andreas Niedermaier (CEO), who is appointed until December 31, 2023, as well as Klaus Dieter Englmaier (COO) and Dr. Georg Weichselbaumer (CSO), whose respective mandates run until December 31, 2022.

There were no personnel changes in the Supervisory Board in the reporting period. The members of the Supervisory Board remain unchanged: Markus Zöllner (Chairman), Dr. Caspar Freiherr von Schnurbein (Deputy Chairman), Prof. Dr. Martina Heigl-Murauer and Steve Röper.

The Supervisory Board would like to thank the Management Board and the Works Council, but especially all employees for their constant motivated and dedicated commitment - particularly in challenging times. Without our hard-working employees, AlzChem would not be the healthy company it is at the end of the fiscal year 2019.

Trostberg, March 12, 2020



Markus Zöllner  
Chairman of the Supervisory Board of AlzChem Group AG

# ALZCHEM SHARE

## PERFORMANCE OF THE ALZCHEM SHARE

The AlzChem share started the fiscal year 2019 with a Xetra closing price of EUR 22.00. The high for the year was reached on May 2, 2019 at EUR 23.40 and the low for the year on August 15, 2019 at EUR 17.68. The Xetra closing price on

December 30, 2019 was EUR 21.20, corresponding to a market capitalization of EUR 215.7 million and a share price performance of -3.6% over the reporting period.

## MASTER DATA

ISIN/WKN	DE000A2YNT30/A2YNT3
Stock exchange symbol	ACT
Type and number of shares	10,176,335 no-par value bearer shares
Trading segment	Regulated Market (Prime Standard)
Designated Sponsor	Baader Bank AG, ODDO SEYDLER BANK AG

## KEY FIGURES

Xetra	01/01 – 12/31/2019
Price on 01/02*	EUR 22.00
Highest price	EUR 23.40
Lowest price	EUR 17.68
Price on 12/30*	EUR 21.20
Total performance	-3.6%
Earnings per share	EUR 1.77
Market capitalization on 12/30*	EUR 215.7 million

\* Xetra closing price

# SHAREHOLDER STRUCTURE

SHAREHOLDER	%
LIVIA Corporate Development SE	37.6
HDI Vier CE GmbH	20.5
four two na GmbH	15.8
Free float*	26.1
thereof M&G plc	7.6

\* Information on free float in accordance with sec. 2.3 of the Guide to the Stock Indices of Deutsche Börse AG in the currently applicable version



"The daily intake of creatine can increase the effect of strength training on the muscular strength of adults over 55 years of age."

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# COMBINED MANAGEMENT REPORT

for the fiscal year from January 1, 2019 to December 31, 2019

## 1. PRELIMINARY REMARK

AlzChem Group AG is combining the Group management report and the management report of AlzChem Group AG for the first time for the fiscal year 2019, as most of the statements apply equally to the AlzChem Group and AlzChem Group AG. The use of this facilitation option is intended to avoid double enumeration and additional work and to provide an overall picture of the Group and its parent company.

The consolidated financial statements of AlzChem Group AG were prepared in accordance with the International Financial Reporting Standards (IFRS), the annual financial statements of AlzChem Group AG were prepared in accordance with the provisions of the German Commercial Code (HGB) and the Stock Corporation Act (AktG). As far as the statements in this combined management report only refer to AlzChem Group AG, this is made clear.

The disclosures required under sec. 315a para. 1 and sec. 289a para. 1 HGB and the remuneration report are presented in separate section 8 and are components of the combined management report audited by the Group auditor. The combined non-financial statement contained in section 9 of this combined management report pursuant to sec. 289b para. 1 HGB and sec. 315b para. 1 HGB and the combined corporate governance declaration (corporate governance report) contained in section 10 are components of this combined management report but have not been audited by the Group auditor.

## 2. FUNDAMENTALS OF THE GROUP

### 2.1. BUSINESS MODEL

The companies of the AlzChem Group develop, produce and trade in chemical products of all kinds and provide services, including as chemical park operator. The networked production structure ("Verbund System") of AlzChem creates an efficient value-added chain, ranging from basic products, such as

metallurgical additives or fertilizers, to special products for various markets, such as

- Creamino® as a feed additive,
- Creapure® as a dietary supplement,
- Dormex® as growth regulator for agricultural applications,
- Bioselect® for the pharmaceutical market.

The AlzChem Group serves a wide range of industries with its product portfolio:

- Nutrition: the nutrition segment comprises the marketing of high-quality products of the Creapure® and LIVADUR® brands for the food and sports food industry as dietary supplements and as additives in the manufacture of cosmetics. The products are also used in the pharmaceutical industry. The new pet food additive Creamino® makes a valuable contribution in the field of livestock farming.
- Pharmaceuticals and fine chemicals: based on carbon, lime and nitrogen, the company builds on a widely ramified product family tree ("Verbund System"). In the multi-purpose plants (custom manufacturing), the basic products are refined and a wide range of fine chemicals are produced. At the top of the "Verbund System" is, for example, a product such as Bioselect®, which is also used in the pharmaceutical industry.
- Agriculture: in addition to special fertilizers, such as Perlka®, and growth regulators, such as Dormex®, the product range of the AlzChem Group also includes plant strengthening agents for the cultivation of grapes and fruits.
- Renewable energies: with the DYHARD® product range, the AlzChem Group is involved in the development of ever larger wind turbines. The product Silzot SQ® plays an important role in the competitive production of solar wafers from polycrystalline silicon.
- Metallurgy: here, the company serves two important areas in the steel industry: hot metal desulphurization and secondary metallurgy.

- Service: as the site operator of two chemical parks, the AlzChem Group is responsible for the production and distribution of various infrastructure services.

The AlzChem Group produces at four sites in the southeast Bavarian Chemical Triangle and in Sundsvall, Sweden. The company has sales companies in the strategically important markets of the USA and China.

The operating business of the AlzChem Group can be divided into the three business segments Specialty Chemicals, Basics & Intermediates and Other & Holding along the entire value chain and according to the internal reporting structure.

The Specialty Chemicals segment is engaged in the production and sale of high-quality specialty chemical products such as Creamino®, Creapure®, Bioselect®, Silzot®, DYHARD® and Dormex®.

The Basics & Intermediates segment comprises the production of basic and intermediate products that are either required for the production of specialty chemicals or are marketed as independent products. The latter serve a wide range of applications, for example in agriculture, steel production and the automotive industry.

The Other & Holding segment includes all other activities that cannot be allocated to the other segments. These are mainly services related to the Trostberg and Hart chemical parks, which AlzChem operates (also for third parties). In addition, administrative services are allocated to the segment.

## 2.2. GROUP STRUCTURE

In August 2019, Edelife Distributing LLC based in Atlanta (USA) was founded. The company takes over the sales activities for dietary supplements in the USA. Apart from this, there were no changes in the Group structure compared to December 31, 2018.

AlzChem Group AG acts as the Group parent company (without own business activities) of the AlzChem Group. The following companies belonged to the AlzChem Group's scope of consolidation as of December 31, 2019<sup>1</sup>:

Company	Seat	Consolidation
AlzChem Group AG	Trostberg, Germany	Parent company
AlzChem Trostberg GmbH	Trostberg, Germany	Fully consolidated
AlzChem International GmbH	Trostberg, Germany	Fully consolidated
AlzChem Stahltechnik GmbH	Trostberg, Germany	Fully consolidated
AlzChem Nutrition GmbH	Trostberg, Germany	Fully consolidated
NIGU Chemie GmbH	Waldkraiburg, Germany	Fully consolidated
AlzChem Shanghai Co. Ltd.	Shanghai, China	Fully consolidated
AlzChem LLC	Atlanta, USA	Fully consolidated
Nordic Carbide AB	Sundsvall, Sweden	Fully consolidated
AlzChem Netz GmbH	Trostberg, Germany	Fully consolidated
Edelife Distributing LLC	Atlanta, USA	Fully consolidated

Since October 5, 2017, the shares of AlzChem Group AG (WKN: A2Y NT3) have been traded on the Frankfurt Stock Exchange

in the sub-segment of the regulated market with additional post-admission obligations (Prime Standard).

<sup>1</sup> The complete list of shareholdings in accordance with sec. 313 para. 2 HGB is included in the consolidated financial statements.

### 2.3. CHANGE OF THE FISCAL YEAR

In accordance with the resolution of the Annual General Meeting on November 22, 2018, the fiscal year of AlzChem Group AG has been the same as the calendar year since January 1, 2019, and all annual financial statements of the AlzChem Group companies are once again in line with a fiscal year end on December 31. The previous year was a short fiscal year for the period from July 1, 2018 to December 31, 2018 (hereinafter also referred to as SFY 2018/II). The audited prior-year figures stated relate to the previous short fiscal year 2018/II and thus to the period from July 1, 2018 to December 31, 2018 or to the reporting date December 31, 2018. A comparison of the current full-year reporting period with the prior-year figures is therefore of only limited informative value. For this reason, we have dispensed in part with a quantitative and also explanatory presentation of the change.

In order to make the development of the AlzChem Group transparent over time and to ensure comparability with the entire calendar year 2018, key financial figures for the income statement, statement of comprehensive income and cash flow statement for the entire year 2018 are also disclosed and explained additionally and voluntarily. These were calculated by adding the respective key financial figures for the short fiscal year 2018/I and the short fiscal year 2018/II and are unaudited. The period comprising both short fiscal years is also referred to as "calendar year 2018" or "2018".

### 2.4. CONTROL SYSTEM

The Group is managed through regular meetings and reports by the respective committees, bodies and specialist departments. This includes, among other things:

- Management Board meetings in a 2-week cycle,
- Regular meetings of the extended management,
- Regular coordination of production and technology,
- Regular coordination of sales and marketing including innovation management, supply chain management and production,
- Regular meetings for controlling and resource allocation of the innovation management department,
- Regular liquidity and financial management (daily, monthly).

The control process is accompanied by financial corporate management based on a consistent, value-oriented system of key figures. The partly daily, weekly and monthly reports include a detailed results analysis of all business transactions with corresponding catalogs of measures in coordination with the respective process owners. The catalog of key figures for financial corporate management is as follows:

Key figures	Calculation
Group equity ratio	$\frac{\text{Equity}}{\text{Balance sheet total}}$
Inventory ratio <sup>2</sup>	$\frac{\text{Inventories}}{\text{Sales}}$
Sales	Absolute value
Group debt ratio <sup>3</sup>	$\frac{\text{Net debt}}{\text{Total capital}}$

<sup>2</sup> AlzChem operates in a partly strongly growing market environment and in the previous year switched to monitoring and tracking inventories in relation to sales.

<sup>3</sup> Debt ratio = ratio of net debt to total capital. Net debt is defined as the sum of all liabilities less existing cash and cash equivalents.

The calculation is based on monthly, quarterly and annual reports. This ensures that deviations between planned and actual figures are detected at an early stage and

countermeasures can be taken in good time. In addition, the following key profitability figures are used at the level of the Management Board of the AlzChem Group:

Key figure	Calculation
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDA margin	$\frac{\text{EBITDA}}{\text{Sales}}$

Apart from the Group-related equity ratio and the debt ratio, the other key performance indicators are used to assess economic success based on the reporting units and segments. The central performance indicator is EBITDA, which is also broken down to the operating units and segments to measure the achievement of targets.

EBITDA and the corresponding relative key figure, the EBITDA margin, show the operating profitability independent of the capital structure and investment propensity, and enable internal and external comparisons of the business in terms of cost structure. Since depreciation and amortization (scheduled and non-scheduled) are not taken into account, this is also an indicator close to cash flow, which can therefore also be used as a sales-related cash flow return.

The internal control and reporting in the AlzChem Group are generally based on the IFRS accounting principles described in the IFRS consolidated financial statements. The Group measures the success of its segments on the basis of segment earnings figures, which are referred to as EBIT and EBITDA in internal control and reporting. The segment earnings figure EBIT comprises gross profit, selling, general administrative, research and non-capitalized development expenses as well as other operating income and expenses. If there are inter-segment sales relationships, these are calculated using the rules of Group costing and compliance with transfer price specifications and are not shown as sales in the respective segment, but as consolidated. In addition, the inventory ratio is reported and monitored at segment level.

## 2.5. INNOVATION MANAGEMENT, RESEARCH & DEVELOPMENT

AlzChem considers innovation management to be a key growth driver and therefore invests intensively in research and development. The main areas of research and development are product, application and process development. In the area of product and application development, new products are researched and existing products are further developed. In addition, chemical solutions are developed for special customer requirements.

The area of process development concentrates on the transfer of new findings to the production process and the continuous improvement of efficiency in the own production process. Significant research and development activities relate to the Specialty Chemicals segment, but also support the Basics & Intermediates segment at the Trostberg, Schalchen, Hart and Sundsvall (Sweden) sites.

There are no research and development activities in the Other & Holding segment.

The total costs incurred for research and development activities are as follows:

in EUR thousand	2017	SFY 2018/I	SFY 2018/II	2018	2019
Research (product and application development)	6,744	2,771	3,586	6,357	6,638
Process development	2,271	1,179	1,142	2,321	2,672
<b>∑ Research and development expenses</b>	<b>9,015</b>	<b>3,950</b>	<b>4,728</b>	<b>8,678</b>	<b>9,310</b>
% in relation to Group sale	2.6%	2.0%	2.6%	2.3%	2.5%

For the Specialty Chemicals segment, the ratio of expenses to sales for the fiscal year 2019 was 3.10% (calendar year 2018: 2.76%).

In the period under review, the criteria for capitalizing research and development costs were not met. Total capitalized services in this area (mainly investments in property, plant and equipment) amounted to EUR 697 thousand (calendar year 2018: EUR 746 thousand). This mainly involved the regular renewal of, for example, analytical equipment in the various departments of the innovation management division.

Research and development expenses in the Basics & Intermediates segment amounted to 1.47% of sales in the reporting period (calendar year 2018: 1.65%).

In the fiscal year 2019, the AlzChem Group employed a total of 107 people in research and development (calendar year 2018: 97).

### 3. BUSINESS REPORT

Unless stated otherwise, all amounts are stated in EUR thousand. For computational reasons, rounding differences of ± one unit may occur in tables.

#### 3.1. MACROECONOMIC AND INDUSTRY-RELATED FRAMEWORK CONDITIONS

##### 3.1.1. MACROECONOMIC FRAMEWORK CONDITIONS

According to the Kiel Institute for the World Economy (IfW)<sup>4</sup>, the global economy has further lost momentum in 2019. The economy continued to deteriorate, particularly in the advanced economies, while economic momentum stabilized in many emerging markets. This was supported by an easing of monetary policy, which is again strongly expansionary in the advanced economies, while lower US interest rates allowed

the central banks in the emerging markets to cut interest rates across the board. In addition, some countries are experiencing noticeable stimulus from fiscal policy. Global production is expected to have increased by only 3.0% overall in 2019 (2018: 3.7%).

In the Eurozone, private consumption has recently been somewhat more buoyant, while the unemployment rate has tended to improve further. For the full year 2019, the IfW expects gross domestic product growth in the Eurozone to be 1.2% (2018: 1.9%).

According to initial calculations by the Federal Statistical Office (Destatis)<sup>5</sup>, Germany's price-adjusted gross domestic product grew by 0.6% in 2019 after 1.5% in the previous year. The German economy thus grew for the tenth year in a row, which represents the longest growth phase in the united Germany, although growth in 2019 lost momentum. The economy was mainly supported by consumption. Private consumer spending rose by 1.6% in price-adjusted terms and government spending by 2.5%. The German economy exported 0.9% more goods and services in price-adjusted terms than in 2018, while price-adjusted imports rose by 1.9%.

##### 3.1.2. INDUSTRY-RELATED FRAMEWORK CONDITIONS

###### Development of the German chemical and pharmaceutical industry

2019 was a disappointing year for the chemical and pharmaceutical industry. Sales in Germany's third-largest industry fell by 5% to EUR 193 billion. The industry's foreign business overseas and in Europe suffered from the global economic downturn and trade disputes between China and the USA. At the same time, domestic demand for chemical products from industrial customers declined. As a result, production fell by 7.5% overall. However, this figure is strongly influenced by a special statistical effect in the pharmaceuticals division

<sup>4</sup> [https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2019/KKB\\_61\\_2019-04\\_Welt\\_DE.pdf](https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/-ifw/Konjunktur/Prognosetexte/deutsch/2019/KKB_61_2019-04_Welt_DE.pdf)  
<sup>5</sup> [https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/01/PD20\\_018\\_811.html](https://www.destatis.de/DE/Presse/Pressemitteilungen/2020/01/PD20_018_811.html)

(-16.5%). Chemicals excluding pharmaceuticals recorded a decline in production of -2.5%. Hardly any business segment was exempt from the cutback in production. Overall, basic chemicals were significantly lower than in the previous year.

### Development of the European steel industry

The steel economy in Germany deteriorated noticeably in the course of 2019: between January and August, market supply of rolled steel fell by 12% year-on-year, incoming orders for rolled steel by 7% and crude steel production by 4%. The weak state of the economy in key steel processing sectors is also reflected in sales, which fell by 9% in 2019 through July, with domestic sales down as much as 12%.

In the EU as a whole, steel demand in 2019 also fell well short of earlier expectations, although the declines were not as severe as in Germany. According to the European steel association Eurofer, market supply of rolled steel is expected to have decreased by 3% in 2019.

### Development of German agriculture

According to the economic barometer Agrar of the German Farmers' Association (Deutscher Bauernverband – DBV) of September 2019, the mood in German agriculture is worse than it has been for a long time. In the previous surveys in March 2019 and June 2019, the mood in the agricultural sector had already deteriorated significantly. According to the current representative survey, however, the economic mood of the farms has now worsened considerably once again. This is also reflected in the investment plans of farmers: only 30% of them intend to invest in the next six months. The liquidity situation of farms has also deteriorated since June. Due to the difficult weather conditions in summer 2019, liquidity is very tight, especially in many farms in eastern Germany. While the assessment of the current economic situation of the processing companies is still relatively positive, the picture is much worse for the arable farming and feed production companies. In particular, expectations regarding the future economic situation have deteriorated significantly for all types of farms. Other dampening influences in recent months have been the development of grain, milk, pig and cattle prices, frequently disappointment about harvest results, and national and EU agricultural policy<sup>6</sup>.

## 3.2. BUSINESS DEVELOPMENT

### 3.2.1. PRELIMINARY REMARKS

In accordance with the resolution of the Annual General Meeting on November 22, 2018, the fiscal year of AlzChem Group AG has been the same as the calendar year since January 1, 2019, and all annual financial statements of the AlzChem Group companies are once again in line with a fiscal year end on December 31. The previous year was a short fiscal year for the period from July 1, 2018 to December 31, 2018 (hereinafter also referred to as SFY 2018/II). The audited prior-year figures stated relate to the previous short fiscal year 2018/II and thus to the period from July 1, 2018 to December 31, 2018 or to the reporting date December 31, 2018. A comparison of the current full-year reporting period with the prior-year figures is therefore of only limited informative value. For this reason, we have dispensed in part with a quantitative and also explanatory presentation of the change.

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### 3.2.2. SALES AND REVENUE

The order and contract situation of the completed fiscal year 2019 remained roughly at the prior-year level in all quarters. The start of 2020 is expected to be at about the same level as the previous year. Nevertheless, the operating business development in the reporting period was fundamentally positive for the AlzChem Group and met the management's expectations. In some cases, these were even exceeded, although not all segments or their subdivisions were able to fully achieve the forecast targets. For example, despite good initial project successes, the development of inventories is still above the targeted figures. Sales in the fiscal year 2019 totaled EUR 376,072 thousand and are thus slightly higher than in the reference period calendar year 2018 (EUR 375,217 thousand).

6 <https://www.bauernverband.de/presse-medien/pressemitteilungen/pressemitteilung/konjunkturbarometer-agrar-bestaetigt-schlechte-stimmung-in-der-landwirtschaft>

The Specialty Chemicals segment, and in particular the business from the multi-purpose facilities, did not quite match expectations or the previous year's figures. Despite a very broad product portfolio, high capacity utilization and the introduction of some new molecules, the decline in sales of some custom manufacturing products could not be fully offset. The renewable energy sector experienced "light and shadow" in 2019, so that volumes to the wind industry were stable to slightly increasing, but volumes to the solar industry continued to decline. In 2019, the human and animal nutrition business unit underwent the already anticipated transformation towards own distribution. With the products Creamino® and Creapure®, AlzChem is now visibly active in the market with strong own brands. A promising potential was raised with the Dormex® application.

In 2019, the Basics & Intermediates segment can be described as the anchor of stability for the entire Group. Despite turmoil in the steel and agricultural industries, cost increases were transformed into price increases. At the same time, quantities of volume products, such as Perlka®, were at about the previous year's level. In addition, the strategic further development of the basic chemicals business led to significant successes, so that the NITRALZ® plant, which was significantly expanded in 2019, could be operated at almost full capacity from day one of commissioning. This is reflected above all in the segment's earnings performance. Volumes and prices rose, resulting in a significant increase in the EBITDA margin. The more advantageous structure of the product mix was another factor.

Demand for services at the Trostberg, Schalchen and Hart sites was at a stable to slightly increasing level, comparable with that of the calendar year 2018. Here, AlzChem continues to strive to offer an attractive range of customized services. The years 2017 and 2018 were characterized by various expenses and structural measures that were not incurred in 2019 and therefore no longer burdened the result. Accordingly, the business figures in the Other & Holding segment developed positively.

Overall, we were able to expand our good positioning in the sales markets, slightly increase consolidated sales in the fiscal year 2019 in a challenging market environment and further improve the market position of our existing and newer products. Sales and earnings were influenced by the partly volatile raw material and energy prices. The changes in the exchange rates of the main Group currencies USD and JPY also had a clearly positive effect on the Group's earnings situation.

As a result of the changed marketing and sales concept and the effects of the new German Temporary Employment Act, the number of Group employees<sup>7</sup> rose to 1,623 in the reporting period compared with 1,562 in the calendar year 2018.

There were significant changes in the distribution of volumes among the sales regions, mainly due to the launch of our own distribution of Creamino®. With direct deliveries to end customers, volumes also increased within the EU (excluding Germany), in the NAFTA region, in Asia and in the rest of the world.

<sup>7</sup> Group employees = all employment relationships without inactive employment relationships such as parental leave, partial retirement - passive, long-term sick leave (over 18 months)

### 3.2.3. NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

#### 3.2.3.1. RESULTS OF OPERATIONS

in EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
<b>Sales revenues</b>	<b>195,241</b>	<b>179,976</b>	<b>375,217</b>	<b>376,072</b>
Change in finished goods and work in progress	4,790	671	5,461	-4,862
Other operating income	6,599	6,837	13,436	17,147
Cost of materials	-80,180	-75,249	-155,429	-142,391
Personnel expenses	-58,625	-55,560	-114,185	-122,088
Other operating expenses	-36,867	-38,254	-75,121	-73,800
<b>EBITDA</b>	<b>30,958</b>	<b>18,421</b>	<b>49,379</b>	<b>50,078</b>
Depreciation and amortization	-7,498	-7,689	-15,187	-19,492
<b>EBIT</b>	<b>23,460</b>	<b>10,732</b>	<b>34,192</b>	<b>30,586</b>
Other interest and similar income	315	227	542	302
Interest and similar expenses	-1,422	-1,393	-2,815	-5,396
<b>Financial result</b>	<b>-1,107</b>	<b>-1,166</b>	<b>-2,273</b>	<b>-5,094</b>
<b>Result from ordinary business activities</b>	<b>22,353</b>	<b>9,566</b>	<b>31,919</b>	<b>25,492</b>
Taxes on income and profit	-6,291	-2,845	-9,136	-7,345
<b>Consolidated net income</b>	<b>16,062</b>	<b>6,721</b>	<b>22,783</b>	<b>18,147</b>
thereof non-controlling interests	57	82	139	171
thereof interests of shareholders of AlzChem Group AG	16,005	6,639	22,644	17,976
<b>Earning per share in EUR (undiluted and diluted)*</b>	<b>1.57</b>	<b>0.65</b>	<b>2.23</b>	<b>1.77</b>

\* converted to the current number of shares (10,176,335 shares)

In the fiscal year 2019, consolidated sales amounted to EUR 376,072 thousand (calendar year 2018: EUR 375,217 thousand). This corresponds to a slight sales growth of 0.2%. The stable sales performance was mainly attributable to the Basics & Intermediates segment, which compensated for the sales decline in the Specialty Chemicals segment. AlzChem successfully launched its own distribution of Creamino® especially in Europe and the NAFTA region. At the same time,

the key issues of trade disputes, upheaval in the automotive sector and the difficult environment in the chemical industry left their mark, mainly on sales in Germany, but also in the USA. According to current information, the restrained demand trend will continue at least until the end of the first quarter of 2020.

Sales by region were as follows:

in EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
Germany	80,385	79,851	160,236	121,258
European Union (without Germany)	54,450	47,953	102,403	121,910
Rest of Europe	13,343	8,703	22,047	18,347
NAFTA	17,312	21,387	38,700	49,127
Asia	17,319	16,848	34,167	38,486
Rest of the world	12,432	5,234	17,666	26,944
<b>Total</b>	<b>195,241</b>	<b>179,976</b>	<b>375,217</b>	<b>376,072</b>

Despite negative deviations, which are mainly due to a direct effect of lower deliveries to the chemical processing sector (including automotive applications) and the switch to the own distribution of Creamino®, sales in Germany in 2019 were kept within the Management Board's expectations. Climatic conditions in the form of very high temperatures and very low precipitation generally had a negative impact on demand in the agricultural sector. Against this background, it was therefore remarkable that volumes were nevertheless maintained at the previous year's level. Higher deliveries from the remaining basic chemicals business (primarily from the NITRALZ® product line) were not able to fully offset the decline in specialty chemicals.

In the European Union, the applications of the AlzChem Group continued to perform well in the steel industry's persistently turbulent market environment, so that this division contributed to regional sales at the previous year's level. A particularly significant sales effect was achieved with Creamino®. By contrast, lower deliveries were recorded in the automotive sector.

Deliveries to the rest of Europe increased significantly compared to the calendar year 2018. Here, Creamino® volumes and increased deliveries of NITRALZ® also contributed to the increase.

Business in the NAFTA region expanded very significantly in the fiscal year 2019, with Creamino® again playing a major role. However, the expansion of the Dormex® business and in some cases rising volumes of basic chemicals also supported the increase. Sales of dietary supplements declined, so that a strategic realignment of the business (including the development of the own brand LIVADUR®) and new distribution structures are planned for 2020.

The USD/EUR exchange rate had a positive impact on AlzChem's sales and thus earnings development in 2019.

The Asian business area was more or less stable in the fiscal year 2019, except for the Creamino® effect. Although the market environment for renewable energies remained difficult, volume increases were achieved for Perlka® and NITRALZ®. With the help of its sales company, AlzChem Shanghai LLC, AlzChem worked consistently on expanding its product portfolio on the Chinese market, so that fluctuations in individual business areas can be better compensated.

South America is one of AlzChem's main sales markets among the rest of the world, and based on long-term strategic partnerships, the Group was able to expand its market position in the fiscal year 2019. Here, too, the attributes of quality and reliability, combined with a high level of expertise in agricultural application consulting, are proving to be effective in the long term.

In addition to South America, Africa also became a significant sales market for Creamino® among the rest of the world following the start of the company's own distribution.

Other operating income is mainly characterized by own work capitalized. These result from the obligation to recognize self-generated items of property, plant and equipment. With a volume of EUR 8,460 thousand in the fiscal year 2019, they account for around half of other operating income (due to high investments in new equipment). In addition, income from the reversal of provisions and liabilities in the amount of EUR 3,374 thousand (calendar year 2018: EUR 952 thousand) had a positive effect on the earnings situation in the fiscal year 2019. The income from exchange rate gains of EUR 2,695 thousand is offset by expenses from exchange rate losses of EUR 2,363 thousand reported under other operating expenses.

The cost of materials in the reporting period amounted to EUR 142,391 thousand. On the one hand, this development was influenced by a direct correlation with sales or price and a changed product mix. The cost of materials ratio (cost of materials + change in inventories/sales) was 39.2% in the fiscal year 2019 (calendar year 2018: 40.0%). The slight decrease is mainly due to declining electricity prices at the sites in Germany and Sweden. Based on a long-term procurement strategy, the Group was able to limit negative effects on electricity prices within a volatile environment. Overall, traditional raw material costs were at the previous year's level and thus below the forecast for the fiscal year 2019. Electricity costs fell, especially in Sweden, due to favorable strip hedging and advantageous spot prices.

Personnel expenses in the fiscal year 2019 amounted to EUR 122,088 thousand. A comparison with the calendar year 2018 shows that personnel expenses have risen in relation to sales. This is due to the establishment of a new sales team for Creamino®, the commissioning of the new Creamino® and NITRALZ® plants, and the hiring of temporary workers as a result of changes in the temporary employment regulations.

Employees <sup>8</sup>	2015	2016	2017	SFY 2018/I	SFY 2018/II	2019
Commercial workers	748	749	766	781	802	821
Employees	611	595	610	624	635	677
Trainees	121	125	115	119	125	125
<b>Total employees</b>	<b>1,480</b>	<b>1,469</b>	<b>1,491</b>	<b>1,524</b>	<b>1,562</b>	<b>1,623</b>
Change	1.6%	-0.8%	1.5%	2.2%	2.4%	4.0%

Other operating expenses of EUR 73,800 thousand are characterized by selling expenses, which amounted to EUR 16,383 thousand in the fiscal year 2019. Due to the product mix, they are thus below the figure for the calendar year 2018 of EUR 18,305 thousand. Other significant items are other external services (EUR 9,359 thousand) and maintenance costs (EUR 10,295 thousand). In addition, environmental and waste disposal costs of EUR 8,561 thousand also had an impact on the development of other operating

expenses. We also see the effects of the German Temporary Employment Act (Arbeitnehmerüberlassungsgesetz) in this cost item, so that the expenses for temporary workers fell by 55% compared to the calendar year 2018.

EBITDA for the fiscal year 2019 amounted to EUR 50,078 thousand.

Depreciation and amortization are as follows:

In EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
Amortization on intangible assets	250	224	474	518
Depreciation on fixed assets	7,248	7,465	14,713	17,295
<b>Depreciation and amortization own assets</b>	<b>7,498</b>	<b>7,689</b>	<b>15,187</b>	<b>17,813</b>
<b>Amortization on lease usage rights</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,679</b>
<b>Total depreciation and amortization</b>	<b>7,498</b>	<b>7,689</b>	<b>15,187</b>	<b>19,492</b>

The increased volume of depreciation and amortization is attributable to the Group's extensive investment activities in the past fiscal year 2019 and in previous years. As a result of the first-time application of IFRS 16, amortization on the now capitalized lease usage rights had to be recognized for the first time in the fiscal year 2019.

The financial result for the fiscal year 2019, amounting to EUR -5,094 thousand, was mainly influenced by interest and similar expenses. These mainly include non-cash interest expenses from the compounding of long-term provisions for pensions and landfills as well as bank and factoring interest, which occurred in particular for long-term loans.

In the fiscal year 2019, the effective Group tax rate was 28.8% (calendar year 2018: 28.6%). The current income tax expense of EUR 7,930 thousand (calendar year 2018: EUR 8,605 thousand) reflects the slightly declining EBIT development.

Income from deferred taxes amounted to EUR 585 thousand in the fiscal year 2019, while an expense of EUR 531 thousand was recorded in the calendar year 2018.

The consolidated net income for the fiscal year 2019 reached EUR 18,147 thousand (calendar year 2018: EUR 22,783 thousand). This results in earnings per share of EUR 1.77 (calendar year 2018: EUR 2.23<sup>9</sup>).

<sup>8</sup> Calculation of the average number of employees at the end of the last four quarters before the respective reference date, including those abroad  
<sup>9</sup> calculated on 10,176,335 shares

### 3.2.3.1.1. DEVELOPMENT OF THE SEGMENTS

#### 3.2.3.1.2. SPECIALTY CHEMICALS SEGMENT

##### Key figures for the segment

In EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
External sales	110,734	98,680	209,414	200,022
<b>EBITDA</b>	<b>28,776</b>	<b>21,916</b>	<b>50,692</b>	<b>41,684</b>
Depreciation and amortization	-2,623	-2,490	-5,113	-6,930
<b>EBIT</b>	<b>26,153</b>	<b>19,426</b>	<b>45,579</b>	<b>34,754</b>
Inventories	47,403	49,672	49,672	44,183
Inventory ratio	43%	50%	24%	22%
<b>EBITDA margin</b>	<b>26.0%</b>	<b>22.2%</b>	<b>24.2%</b>	<b>20.8%</b>

The development of the Specialty Chemicals segment in 2019 was characterized by the start of the own distribution of Creamino®. In line with the forecast for the past fiscal year, volumes at the beginning of the year were well below those of the calendar year 2018, as customer warehouses were mainly filled by the sale of stock items from the former distribution partner. The gradual acquisition of new customers requires between 12 and 15 months, so that a positive volume development is expected in the fiscal year 2020. In addition, the distortions in the markets made it difficult to maintain sales from the multi-purpose facilities (custom manufacturing) at the previous year's level. The growth of our niche product Alipure® (dietary supplements) and the special agro-application Dormex® could not fully compensate for

the significant decline in sales due to Creamino® and, above all, the multi-purpose facilities. At our Waldkraiburg site, we successfully expanded the product and customer portfolio for our Bioselect® products.

The successfully implemented project to reduce inventories had a considerable impact, so that inventories were significantly reduced through optimized production planning and supply chain. For 2020, the Management Board has also issued a target for further reductions in inventories, so that earnings effects may also be expected here under certain circumstances.

#### 3.2.3.1.3. BASICS & INTERMEDIATES SEGMENT

##### Key figures for the segment

In EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
External sales	71,081	68,885	139,966	149,408
<b>EBITDA</b>	<b>1,248</b>	<b>-2,137</b>	<b>-889</b>	<b>5,247</b>
Depreciation and amortization	-2,407	-2,575	-4,983	-6,656
<b>EBIT</b>	<b>-1,159</b>	<b>-4,712</b>	<b>-5,871</b>	<b>-1,409</b>
Inventories	26,327	28,125	28,125	30,924
Inventory ratio	37%	41%	20%	21%
<b>EBITDA margin</b>	<b>1.8%</b>	<b>-3.1%</b>	<b>-0.6%</b>	<b>3.5%</b>

Sales revenues in the Basics & Intermediates segment totaled EUR 149,408 thousand in the reporting period and were positively influenced by the business development of the NITRALZ® product area. The extremely successful commissioning of the expanded plant park led to the segment's turnaround. In addition, the basic business in the agriculture and metallurgy sector was at or slightly above the previous year's level (calendar year 2018). The fruits of successful market development were thus reaped this year. In a difficult market environment, stable volumes were sold at upwardly adjusted prices. A positive side effect was the improved EUR/USD and EUR/JPY exchange rates. On the cost

side, the segment benefited significantly from stable raw material prices and (for AlzChem) falling electricity prices.

Inventories were slightly above the level as of December 31, 2018, for two reasons:

- The increased business volume of NITRALZ® was deliberately accompanied by a slightly higher inventory level in order to optimize set-up and cleaning times and minimize delivery times.
- The quantities of electricity purchased (electricity bands) were converted into products and placed in stock in the form of finished products along the NCN chain.

#### 3.2.3.1.4. OTHER & HOLDING SEGMENT

##### Key figures for the segment

In EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
External sales	13,421	12,404	25,825	26,643
<b>EBITDA</b>	497	-305	192	4,506
Depreciation and amortization	-2,614	-2,804	-5,418	-6,246
<b>EBIT</b>	<b>-2,117</b>	<b>-3,109</b>	<b>-5,226</b>	<b>-1,740</b>
Inventories	3,761	3,766	3,766	3,586
Inventory ratio	28%	30%	15%	13%
<b>EBITDA margin</b>	<b>3.7%</b>	<b>-2.5%</b>	<b>0.7%</b>	<b>16.9%</b>

The business volume at the chemical parks in Trostberg and Hart remained essentially stable. Sales revenues totaled EUR 26,643 thousand in the fiscal year 2019. The development of operating results reflected the non-recurrence of the repayment of network fees of EUR 1,524 thousand made in the previous year (thereof EUR 61 thousand interest). Moreover, maintenance costs were reduced and positive effects from

control energy were realized. In addition, infrastructure measures not relating to the period under review were passed on to the site customers on a pro-rata basis as agreed.

The development in segment inventories with a volume of EUR 3,586 thousand must be seen in connection with regular fluctuations in consumables and supplies, among other things.

### 3.2.3.2. FINANCIAL POSITION

#### 3.2.3.2.1. CAPITAL STRUCTURE

The selection of financial instruments focuses on financing with matching maturities, which is achieved by managing the maturities. AlzChem Trostberg GmbH already made the first repayments at the end of 2019 for the project financing of the new Creamino® production plant.

In addition to project-related financing measures with a term of more than one year and a reported value of EUR 50,747 thousand (December 31, 2018: EUR 32,577 thousand), the AlzChem Group is in a stable position to support its operating business through short- to medium-term financing agreements (see liquidity).

#### 3.2.3.2.2. INVESTMENTS

In the fiscal year 2019, payments for investment measures amounting to EUR 41,382 thousand (calendar year 2018: EUR 40,128 thousand) were made. Investments in the periods under review primarily related to production and infrastructure. The investment targets were mainly in the expansion of capacities, maintenance, expansion, modernization and rationalization. The most significant growth investments in terms of amount in the fiscal year 2019 were:

- Expansion of Creamino® capacity, including logistics (EUR 20.0 million, total project costs of EUR 50 million)
- Capacity expansion in the NITRALZ® product area (EUR 3.4 million, total project costs of EUR 7.2 million).

Due to the "Verbund Structure" and the related interlinking of the infrastructure and investment structure, segment-related information on investments is not provided as this is not meaningful.

#### 3.2.3.2.3. LIQUIDITY

Within the AlzChem Group, AlzChem Trostberg GmbH assumes the Group-internal financing function and ensures the short-term liquidity of the subsidiaries via cash pooling.

The long-term project-related financing for measures already implemented with a term of more than one year amount to EUR 50,747 thousand (December 31, 2018: EUR 32,577 thousand) as of the balance sheet date. Long-term loans were concluded in the fiscal years 2011, 2013, 2015 and finally 2017 to finance investments. In the fiscal year 2019, the last tranche of the financing commitment from 2017 (EUR 50,730 thousand) in the amount of EUR 30,102 thousand was paid out and has thus been almost completely drawn down. These obligations were serviced according to plan in the year under review.

In addition, short-term financing lines (money market loans, overdraft facilities and guarantee credits) totaling EUR 45,000 thousand (December 31, 2018: EUR 37,500 thousand) were agreed with several banks. In connection with an increasing business volume, the possible financing lines were increased in the fiscal year 2019.

As of December 31, 2019, EUR 0<sup>10</sup> thousand (December 31, 2018: EUR 18,167 thousand) of these lines had been utilized. The value of the current loan liabilities to banks of EUR 11,935 thousand (December 31, 2019: EUR 25,353 thousand) reported as of December 31, 2019 corresponds to the current share of the above-mentioned non-current loans. As of December 31, 2018, the total amount included a current share of non-current loans of EUR 7,187 thousand. The remaining amount corresponded to the use of money market loans, which were repaid in full in the fiscal year 2019.

The company also uses factoring as a financing tool. In this case, only about 39% of the available financing framework of EUR 30,000 thousand was utilized on average in the fiscal year 2019 (SFY 2018/II: 32%). The loan and credit agreements include the covenant agreements customary on the capital market. No impairment of these covenants is apparent in the medium-term planning. Liquidity is guaranteed at all times by the existing financing instruments.

Cash and cash equivalents amounted to EUR 9,061 thousand on the reporting date of December 31, 2019 (December 31, 2018: EUR 12,857 thousand). The collateral provided to the Government of Upper Bavaria for the operation of its own

landfills in the amount of kEUR 5,902 (December 31, 2018: EUR 5,902 thousand) is reported as other current asset due to the fixed-term investment that runs for more than three months. These are funds that are fully restricted, but which may be

invested for a maximum period of one year in accordance with the regulations of the restriction on disposal.

The change in cash and cash equivalents is as follows:

in EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
<b>Cash and cash equivalents on January 1 or July 1</b>	<b>12.802</b>	<b>9.844</b>	<b>12.802</b>	<b>12.857</b>
Cash inflow from operating activities	15.436	19.219	34.655	43.631
Cash outflow from investment activities	-15.724	-24.161	-39.885	-41.327
Cash outflow (-)/cash inflow (+) from financing activities	-2.742	7.992	5.250	-6.173
<b>Changes in cash and cash equivalents</b>	<b>-3.030</b>	<b>3.050</b>	<b>20</b>	<b>-3.869</b>
Changes in cash and cash equivalents due to exchange rates	72	-36	35	73
<b>Cash and cash equivalents on December 31 or June 30</b>	<b>9.844</b>	<b>12.857</b>	<b>12.857</b>	<b>9.061</b>

The cash flow statement is prepared using the indirect method.

Cash and cash equivalents as of December 31, 2019 amount to EUR 9,061 thousand (December 31, 2018: EUR 12,857 thousand) and include immediately available bank balances, checks and cash on hand.

As a result of the stable operating results and the optimization of current assets, a positive cash inflow from operating activities of EUR 43,631 thousand was generated in the fiscal year 2019 (calendar year 2018: EUR 34,655 thousand).

The cash outflow from investing activities in the fiscal year 2019 is comprised of investments in property, plant and equipment of EUR 41,382 thousand and proceeds from the

sale of non-current assets of EUR 55 thousand. In the calendar year 2018, the cash outflow from investing activities totaled EUR 39,885 thousand.

The cash outflow from financing activities in the fiscal year 2019 results from the inflow of the last tranche of new loans (EUR 30,102 thousand), the scheduled repayment of loan liabilities (EUR -7,185 thousand), the repayment of short-term financing lines (EUR -18,166 thousand), the repayment of leasing liabilities (EUR -1,594 thousand), the payment of profit claims to non-controlling shareholders (EUR -171 thousand) and a dividend payment (EUR -9,159 thousand).

## 3.2.3.3. NET ASSETS

	06/30/2018		12/31/2018		12/31/2019	
	EUR thousand	Share	EUR thousand	Share	EUR thousand	Share
<b>Assets</b>						
Intangible assets	991	<1%	870	<1%	1,541	<1%
Property, plant, and equipment	123,161	40%	144,265	46%	165,702	48%
Lease usage rights	-	-	-	-	9,770	3%
Financial assets	20	<1%	20	<1%	20	<1%
Other receivables and other assets	1,067	<1%	891	<1%	470	<1%
Deferred tax assets	24,625	8%	24,954	8%	34,477	10%
<b>Non-current assets</b>	<b>149,864</b>	<b>49%</b>	<b>171,000</b>	<b>55%</b>	<b>211,980</b>	<b>62%</b>
Inventories	75,579	25%	78,856	25%	74,607	22%
Trade receivables	52,336	17%	34,351	11%	32,501	9%
Other receivables and other assets	14,515	5%	14,510	5%	14,051	4%
Income tax claims	2,321	1%	1,977	1%	383	<1%
Cash and cash equivalents	9,844	3%	12,857	4%	9,061	3%
<b>Current assets</b>	<b>154,595</b>	<b>51%</b>	<b>142,551</b>	<b>45%</b>	<b>130,603</b>	<b>38%</b>
<b>Total assets</b>	<b>304,459</b>	<b>100%</b>	<b>313,551</b>	<b>100%</b>	<b>342,583</b>	<b>100%</b>
<b>Capital</b>						
Equity	74,044	24%	68,392	22%	61,350	18%
Non-current liabilities	145,007	48%	164,001	52%	220,748	64%
Current liabilities	85,408	28%	81,158	26%	60,485	18%
<b>Balance sheet total</b>	<b>304,459</b>	<b>100%</b>	<b>313,551</b>	<b>100%</b>	<b>342,583</b>	<b>100%</b>

Since December 31, 2018, assets have increased by EUR 29,032 thousand to EUR 342,583 thousand. In addition to the significantly expanded investment activity in property, plant and equipment, this is mainly due to the accounting treatment of leases. The first-time application of IFRS 16 resulted in the first-time recognition of these lease usage rights as of December 31, 2019.

The decrease in inventories by EUR -4,249 thousand to EUR 74,607 thousand reflects the Group's efforts to reduce current assets and thus create free monetary capacity. Following the commissioning of the new plant, the inventory of Creamino® was reduced by approximately 13% compared to the previous year.

The inventory intensity<sup>11</sup> is 22% (December 31, 2018: 25%) and thus also reflects the operating activities.

Trade receivables decreased by EUR -1,849 thousand to EUR 32,501 thousand. The receivables sold as part of factoring, less the agreed retentions, amount to EUR 15,314 thousand

(December 31, 2018: EUR 15,755 thousand). An interest-optimizing factoring service was provided. In addition to inventories, the Management Board also set targets for further optimization in the reduction of operating payment terms<sup>12</sup> so that, despite the start of the Creamino® own distribution and the automatic extension of payment terms associated with this, payment terms at Group level remained virtually stable at 54 days (calendar year 2018: 49 days).

Please refer to section 3.2.3.2.2. Investments for information on the increase in property, plant and equipment.

The increase in deferred tax assets by EUR 9,524 thousand is mainly due to the rise in pension provisions of the AlzChem Group. A value of EUR 25,697 thousand (December 31, 2018: EUR 19,512 thousand) was recognized in deferred tax assets.

The Group equity ratio decreased by 3.9 percentage points to 17.9% as of December 31, 2019. The main reasons for this are the dividend payment and the increase in pension provisions.

<sup>11</sup> Inventories in relation to balance sheet total

<sup>12</sup> Trade receivables without factoring/sales revenues\*365 = operating payment term

The rise in non-current liabilities is primarily due to increased loan liabilities to banks, which serve to finance our major investments on a long-term basis.

The significant rise in pension provisions is based on a discount rate of 0.9% (December, 31 2018: 1.9%). The change in pension provisions due to changes in the actuarial parameters was recognized in other comprehensive income in the amount of EUR -22,457 thousand (calendar year 2018: EUR -499 thousand) and not in the consolidated result for the year.

in %	2015	2016	2017	SFY 2018/I	SFY 2018/II	2019
Discount rate	2.50	1.75	1.75	1.80	1.90	0.90
Wage and salary trend	2.75	2.75	2.75	2.75	2.75	2.75
Pension trend	1.75	1.75	1.75	1.75	2.00	1.75
Trend contribution limit social security	2.50	2.50	2.50	2.50	2.50	2.50

Current liabilities decreased by EUR -20,673 thousand to EUR 60,485 thousand due to the repayment of loan obligations on the one hand and strict cash management on the other, so that no current cash financing lines were utilized as of December 31, 2019. Trade payables also fell again by EUR -6,794 thousand compared to the previous year's balance sheet date, although this should mainly be seen in connection with the completion of investment activities. Other liabilities were stable at EUR 19,172 thousand and consisted

primarily of performance-related salary components and customer claims from volume agreements, which will be paid out to employees and customers in the first quarter of 2020. At EUR 1,870 thousand, income tax liabilities were approximately at the same level as in the calendar year 2018 of EUR 1,529 thousand.

### 3.2.3.4. FINANCIAL AND NON-FINANCIAL PERFORMANCE INDICATORS

#### 3.2.3.4.1. FINANCIAL PERFORMANCE INDICATORS

Key figure	Unit	SFY 2018/I	SFY 2018/II	2018	2019
Group equity ratio	%	24.3	21.8	21.8	17.9
EBIT	EUR thousand	23,460	10,732	34,193	30,586
EBITDA	EUR thousand	30,958	18,421	49,379	50,078
EBITDA margin	%	15.9	10.2	13.2	13.3
Inventories	EUR thousand	75,579	78,856	78,856	74,607
Inventory ratio	%	38.7	43.8	21.0	19.8
Sales	EUR thousand	195,241	179,976	375,217	376,072
Group debt ratio	Ratio	0.72	0.74	0.74	0.79

### 3.2.3.4.2. NON-FINANCIAL PERFORMANCE INDICATORS

In the combined sustainability report or combined corporate social responsibility report (CSR report), the following topics are explained in detail.

The non-financial goals of the AlzChem Group are both short- and long-term in nature and support operational business management as auxiliary indicators. Accordingly, no quantification is made - also against the background of materiality for the addressees of the annual financial statements.

#### Sustainable customer loyalty:

Our business is characterized by a high repurchase rate of regular customers. AlzChem strives to maintain the customer retention rate at a high level and to further expand it in individual business areas.

#### Training:

Personnel development at AlzChem begins with, among other things, in-company training. A considerable proportion of the employee requirements are recruited from the company's own integrated training. This is reflected in the AlzChem Group's training ratio of 9.6% (calendar year 2018: 9.3%), which is high compared to the rest of the industry .

Every year, about 45 trainees start their training in commercial, metal and electrical engineering as well as chemical and logistics areas at AlzChem.

#### Management systems:

The course of business is sustainably geared towards meeting the requirements of the management systems and certificates listed below. The management systems and certificates are not non-financial performance indicators in the narrower sense.

The certification in accordance with ISO27001 and DIN27019 received by the Group had the following concrete reasons: the Federal Network Agency has demanded that public distribution network operators implement the requirements pursuant to sec. 11 para. 1a EnWG with regard to IT security

by January 31, 2018. For AlzChem Netz GmbH as a network operator, the introduction of ISO27001 was therefore mandatory.

#### Environment and energy:

Every year, AlzChem publishes a statement on the environmental impact of its German production sites, including relevant key figures on environmental performance, e.g. resource consumption, emission levels, etc. The transparency thus created shows the great importance of responsible interaction with the environment within the AlzChem Group.

### 3.2.4. OVERALL STATEMENT ON THE ECONOMIC SITUATION

Overall, the Management Board of AlzChem Group AG is satisfied with the course of business in the fiscal year 2019 and the economic situation. The company showed a robust character in a challenging macroeconomic environment. The stable basis of the NCN "Verbund Structure" and basic chemicals business proved to be the cornerstone for a targeted strategic development of the specialty chemicals business. The expansion of the strategic focus on human and animal nutrition could thus be advanced in large steps in 2019.

We have largely achieved what we had planned operationally and strategically. Only the ambitious sales target for 2019 had to be adjusted in the fourth quarter. However, the earnings targets were achieved in line with forecasts.

Despite the very extensive investments, cash and cash equivalents were kept at an appropriate level by the satisfactory operating cash flow, strict cash management (reduction of inventories, payment targets) and the temporary utilization of the existing financing framework.

For the fiscal year 2019, the Management Board and Supervisory Board will propose to the Annual General Meeting that a dividend of EUR 7,632,251 be paid from the distributable profit. This corresponds to a dividend of EUR 0.75 per share.

The order and contract situation in the fiscal year 2019 was approximately the same in all quarters as in the previous year. The start of the year 2020 also developed similarly to 2019.

### 3.2.5. COMPARISON OF THE EXPECTED WITH THE ACTUAL DEVELOPMENT

The full forecast at Group and segment level for the fiscal year 2019 was as follows at the time the consolidated financial statements for the short fiscal year 2018/II were prepared:

Forecast for 2019 (EUR million)	Sales	Adjusted EBITDA <sup>13</sup>	Adjusted EBITDA margin	Adjusted EBIT	Inventory ratio	Equity ratio	Debt ratio
<b>AlzChem Group</b>	389.9 - 398.9	46.5 - 51.9	11.6% - 13.0%	27.1 - 32.5	17.4% - 19.6%	22.9% - 23.9%	0.73 - 0.75
<b>Specialty Chemicals</b>	213.7 - 216.7	43.1 - 46.5	19.8% - 21.5%	35.9 - 39.3	19.2% - 21.0%	-	-
<b>Basics &amp; Intermediates</b>	150.4 - 154.4	3.2 - 4.9	2.1% - 3.2%	-3.5 - -1.8	16.7% - 18.7%	-	-
<b>Other &amp; Holding</b>	25.8 - 27.8	0.2 - 0.5	0.8% - 1.8%	-5.3 - -5.0	8.3% - 14.3%	-	-

In view of an increasingly challenging economic environment, AlzChem Group AG slightly adjusted its sales forecast for the fiscal year 2019. As of November 8, 2019, the company expected to generate sales of EUR 375 million to EUR 385 million (compared to the previously forecast EUR 389.9 million to EUR 398.9 million). The main reason for the expected sales development was the continuing weakness of the automotive sector and the solar industry, which was particularly evident for AlzChem in the fourth quarter. In the automotive sector, AlzChem felt the effects of lower demand for steel and steel derivatives in particular. Deliveries from custom manufacturing

were also weaker. In addition, deliveries to the solar market recovered more slowly than previously expected.

Notwithstanding the slightly adjusted sales expectations, the company confirmed the earnings forecasts made for the fiscal year 2019.

The review of the forecast as of the reporting date December 31, 2019 from 2018 shows the following developments in the fiscal year 2019:

ACTUAL 2019 (EUR million)	Sales	Adjusted EBITDA	Adjusted EBITDA margin	Adjusted EBIT	Inventory ratio	Equity ratio	Debt ratio
<b>AlzChem Group</b>	376.1	50.1	13.3%	30.6	19.8%	17.9%	0.79
<b>Specialty Chemicals</b>	200.0	41.7	20.8%	34.7	22.1%	-	-
<b>Basics &amp; Intermediates</b>	149.4	5.2	3.5%	-1.4	20.7%	-	-
<b>Other &amp; Holding</b>	26.6	4.5	16.9%	-1.7	13.5%	-	-

A comparison of the relevant key financial figures shows that the forecasts for the fiscal year 2019 were largely met.

The deviations in equity ratio and debt ratio are mainly caused by the increase in pension provisions due to the lower discount rate.

<sup>13</sup> As in the previous period, there were no adjustment effects in 2019. This also applies to the EBITDA margin and EBIT.

## 4. SITUATION OF ALZCHEM GROUP AG (INDIVIDUAL FINANCIAL STATEMENTS HGB)

AlzChem Group AG is the parent company of the AlzChem Group. The company's economic situation and development are therefore significantly influenced by the economic situation and development of the entire AlzChem Group.

As the parent company of the Group, AlzChem Group AG assumes the management and/or supervisory functions of the subsidiaries and, in addition to its holding function, also performs Group-wide commercial activities. The results of

operations of AlzChem Group AG are mainly influenced by the receipt of profits via the profit and loss transfer agreement with AlzChem Trostberg GmbH and the offsetting of holding activities to the Group companies.

Therefore, in addition to monitoring the cost structure, the following key figures based on the HGB annual financial statements are used for the management of AlzChem Group AG:

Key figure	Calculation
Sales	Absolute value
EBIT	Earnings before interest and taxes
Annual net profit	Absolute value

### 4.1. BUSINESS PERFORMANCE

The financial statements of AlzChem Group AG were prepared in accordance with the accounting principles of the German Commercial Code and the German Stock Corporation Act.

#### 4.1.1. RESULTS OF OPERATIONS

The annual net result of the AlzChem Group AG is calculated as follows:

In EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
Sales revenues	1,478	1,816	3,294	4,554
Other operating income	2,075	35	2,110	2,268
Personnel expenses	-1,331	-922	-2,253	-3,335
Other operating expenses	-2,561	-590	-3,151	-3,416
<b>EBIT</b>	<b>-339</b>	<b>339</b>	<b>0</b>	<b>71</b>
Income from investments	12,908	23,969	36,877	22,478
Interest and similar income	13	13	26	29
Interest and similar expenses	-49	-59	108	-122
Taxes on income and profit	13,425	-22,808	-9,383	-7,411
<b>Annual net result</b>	<b>25,958</b>	<b>1,455</b>	<b>27,413</b>	<b>15,046</b>

The increase in sales compared with the calendar year 2018 is mainly due to higher allocable personnel expenses and higher other operating expenses, which were particularly influenced by consulting services.

Other operating income mainly includes the re-invoicing of premiums from Group insurance policies to associated companies.

In order to optimize insurance costs in the AlzChem Group, all significant insurance policies of the AlzChem Group were concluded through AlzChem Group AG for the first time from 2018.

The increase in personnel expenses compared to the calendar year 2018 results from the temporary increase in the number of Management Board members to four and the financial compensation of the personal investment agreed in the share-based remuneration of the Management Board members.

Other operating expenses break down as follows:

In EUR thousand	SFY 2018/I	SFY 2018/II	2018	2019
Insurances	1,897	0	1,897	2,104
Expertise and audit expenses	197	107	304	115
Consulting expenses	138	197	335	473
Other expenses	329	286	615	724
<b>Σ Other operating expenses</b>	<b>2,561</b>	<b>590</b>	<b>3,151</b>	<b>3,416</b>

Other operating expenses mainly include expenses for the preparation of expert opinions and the audit of the annual financial statements in the amount of EUR 115 thousand (calendar year 2018: EUR 304 thousand) as well as consulting fees in connection with interim and annual financial statements and for capital market and commercial law. The slight increase in insurance expenses compared to the calendar year 2018 is based on higher policies.

Income from investments results exclusively from the profit transfer (including tax allocations) of AlzChem Trostberg GmbH.

As in the previous year, interest and similar income primarily includes interest income from the release of deferred income.

Interest and similar expenses mainly comprise non-cash interest expenses from the compounding of long-term provisions for pensions and other personnel provisions.

Taxes on income and profit result from the income tax expense of EUR 7,633 thousand (calendar year 2018: EUR 8,384 thousand) on the company's taxable profit.

This includes the results of the subsidiaries that are included in the income tax group. In addition, income from deferred taxes in the amount of EUR 222 thousand was recognized (calendar year 2018: expense of EUR 999 thousand).

The decline in income tax expense is due to the subsidiary's profit transfer to the fiscal unity as of December 31, 2018. Furthermore, since the SFY 2018/II, the deferred taxes in the fiscal unity have been shown at the respective fiscal unity companies according to their cause. In the SFY 2018/II, this led to the reversal of high deferred tax assets with an effect on income and thus to a high deferred tax expense.

#### 4.1.2. FINANCIAL POSITION

The company is linked to the cash pooling of AlzChem Trostberg GmbH. Within the AlzChem Group, AlzChem Trostberg GmbH assumes the Group-internal financing function and thus ensures the short-term liquidity of the subsidiaries and also the Group parent company via cash pooling.

The liquidity of AlzChem Group AG is thus directly dependent on the liquidity of the cash pool holder AlzChem Trostberg GmbH. In expectation of a continued positive business development of the AlzChem Group, the liquidity of AlzChem Group AG is guaranteed at all times by the financing agreement with AlzChem Trostberg GmbH and its currently available financing instruments.

As a result of the cash pooling, cash and cash equivalents amounted to EUR 0 thousand as of the reporting date (December 31, 2018: EUR 34 thousand).

## 4.1.3. NET ASSETS

	06/30/2018		12/31/2018		12/31/2019	
	EUR thousand	Share	EUR thousand	Share	EUR thousand	Share
<b>Assets</b>						
Financial assets	230,744	88%	230,744	89%	230,744	88%
<b>Non-current assets</b>	<b>230,744</b>	<b>88%</b>	<b>230,744</b>	<b>89%</b>	<b>230,744</b>	<b>88%</b>
Receivables and other assets	17,793	7%	26,619	10%	31,209	12%
Cash and cash equivalents	34	<1%	34	<1%	0	<1%
<b>Current assets</b>	<b>17,827</b>	<b>7%</b>	<b>26,653</b>	<b>10%</b>	<b>31,209</b>	<b>12%</b>
Accrued income	327	<1%	296	<1%	254	<1%
Deferred tax assets	13,841	5%	297	<1%	343	<1%
<b>Σ Assets</b>	<b>262,739</b>	<b>100%</b>	<b>257,989</b>	<b>100%</b>	<b>262,549</b>	<b>100%</b>

Receivables and other assets mainly comprise receivables from associated companies and income tax claims. The change compared to December 31, 2018 is primarily due to higher financial receivables from AlzChem Trostberg GmbH as a result of accumulated profit and loss transfer claims.

The allocation of deferred tax assets<sup>14</sup> to the companies in the income tax group according to the principle of causation has the effect that in the company, differences from the different valuations relating to pension provisions are essentially recognized in deferred tax assets.

	06/30/2018		12/31/2018		12/31/2019	
	EUR thousand	Share	EUR thousand	Share	EUR thousand	Share
<b>Capital</b>						
Equity	259,046	99%	249,307	97%	255,194	97%
Provisions	1,856	<1%	3,419	1%	4,723	2%
Liabilities	1,286	<1%	3,740	1%	1,312	1%
Deferred income	538	<1%	525	<1%	498	<1%
Deferred tax liabilities	14	<1%	999	<1%	823	0%
<b>Σ Capital</b>	<b>262,739</b>	<b>100%</b>	<b>257,989</b>	<b>100%</b>	<b>262,549</b>	<b>100%</b>

The increase in provisions mainly results from tax provisions and the build-up of performance-related personnel provisions for the fiscal year 2019 during the year.

The liabilities primarily relate to associated companies and result mainly from VAT liabilities of AlzChem Group AG as the controlling company to the integrated affiliated companies. As of December 31, 2018, there was still a cash pool liability which has now been settled.

Deferred income mainly comprises the difference between the remuneration included for the assumption of pension obligations and the amount of provisions under commercial law. This amount will be released over the duration of 21 years for pension provisions.

The slight change in deferred tax liabilities is based on an increase in the investment book value for tax purposes due to the recognition of reduced transfers prior to the tax group.

<sup>14</sup> The basis for this is provided by the so-called tax allocation agreements sec. 304 AktG, sec. 16 KStG, DRS 18.

#### 4.1.4. FINANCIAL PERFORMANCE INDICATORS

Key figure	Calculation	Unit	2017	SFY 2018/I	SFY 2018/II	2018	2019
Sales	Absolute value	EUR thousand	612	1,478	1,816	3,294	4,554
EBIT	Earnings before interest and taxes	EUR thousand	-272	-339	339	0	71
Annual net profit	Absolute value	EUR thousand	-203	25,958	1,455	27,413	15,046

The business model of AlzChem Group AG does not require non-financial performance indicators.

#### 4.2. COMPARISON OF THE EXPECTED WITH THE ACTUAL DEVELOPMENT

The complete forecast at the level of AlzChem Group AG for the fiscal year 2019 was as follows at the time of preparation of the annual financial statements for the short fiscal year 2018/II:

Key figure	Forecast	ACTUAL
Sales	very sharply rising	very sharply rising
EBIT	very sharply rising	very sharply rising
Annual net profit	very sharply rising	very sharply declining (sinking)

Apart from the annual net profit, the key figures of the forecast were achieved. The annual net profit reflects the contractual regulation of the tax allocation shown at the end of 2018, so that there was a one-off extraordinary deviation from the forecast.

#### 4.3. FORECAST REPORT OF ALZCHEM GROUP AG (SINGLE COMPANY)

Derived from the Group forecast and its significant influence on AlzChem Group AG (individual financial statements), we give the following forecast for AlzChem Group AG for the fiscal year 2020:

Forecast for 2020	Unit	2019	Forecast 2020
Sales	EUR thousand	4,554	slightly declining to sharply declining
EBIT	EUR thousand	71	slightly rising to sharply rising
Annual net profit	EUR thousand	15,046	stable to slightly rising

The operating sales of AlzChem Group AG will experience a slight upward trend in the fiscal year 2020. The reduction in the number of Management Board members from four to three will have the opposite effect, resulting in slightly to strongly declining sales overall.

The key figure EBIT is mainly positively influenced by the cost-plus allocation of management, assistance, financing, personnel and consulting services. Regarding the annual net profit, a stable or slightly increasing income from the profit transfer is expected in line with the above statements and the Group forecast.

## 5. RISK AND OPPORTUNITY REPORT

To provide for the legally required monitoring of material business risks by the Management Board and the Supervisory Board, an internal control system to ensure proper and effective accounting (secs. 289 para. 4, 315 para. 4 HGB), a compliance management system and an early risk detection system in accordance with sec. 91 para. 2 AktG are in place.

Due to the profit and loss transfer agreement with AlzChem Trostberg GmbH, the risk and opportunity situation of AlzChem Group AG basically corresponds to that of the AlzChem Group. Consequently, the following risk and opportunity report refers to both the AlzChem Group and AlzChem Group AG.

### 5.1. RISK REPORT

Risk management is carried out through regular meetings and reports by the respective committees, bodies and specialist departments. This includes regular meetings, reporting and related coordination.

In addition, strict debtor and creditor management is carried out with regard to a timely dunning process including internal credit management for all debtors. Here, maximum volumes have been defined per debtor, which must not be exceeded. In addition, there is rolling, short-term and long-term earnings and financial planning with a monthly liquidity forecast. Monthly project plans within the framework of the REACH<sup>15</sup> regulation ensure the unimpeded flow of goods to the customer. In the energy sector, we work closely with external consultants.

The risk management of the AlzChem Group comprises the entirety of all measures for a systematic and transparent handling of risks and is an integral part of corporate management due to its interlocking with the controlling processes. Every year, a standardized risk inventory is carried out using the enterprise risk management approach. A catalog with corresponding risk categories serves to identify all relevant risks as completely as possible. In addition, standardized evaluation and reporting tools are available for the recording and assessment of risks. Depending on the type of risk, various instruments such as Monte Carlo simulations, sensitivity or scenario analyses are used for assessment and evaluation. The scaled risk volume is determined taking into account the probability of occurrence and the extent of damage. The aim of this measure is the early identification, assessment and management of those risks that can significantly influence the achievement of the strategic, operational, financial and regulatory objectives of the company.

For the assessment of risks, the expected effects of the extent of risk in their specific manifestations (very low, low, medium and high) are weighted with their individual probability of occurrence (very low, low, medium and high) and then converted into a point value on a three-stage scale. The level of the point value then determines the classification of the risk significance as low, medium and high for the net assets, financial position and results of operations. Measures already taken to limit risk reduce the risk significance rating.

The valuation is based in detail on the following assumptions:

	very low	low	medium	high
<b>Probability of occurrence</b>	< 10%	10% – < 30%	30% – < 50%	from 50 %

<sup>15</sup> REACH = Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals. It has been in force in Europe since 2007 and aims to ensure a high level of protection of human health and the environment. It should at the same time ensure the free movement of chemicals in the internal market and promote competition and innovation.

A period of three years is considered to be the period of observation. If risks lie in the more distant future, these were also recorded, whereby the time horizon was taken into account when estimating the damage.

The extent of risk is based on the following assumptions, which serve as an indicator of the impact on the net assets, financial position and results of operations:

	very low	low	medium	high
<b>Risk exposure of EBITDA</b>	< 2%	2% – < 10%	10% – < 25%	from 25%

The scope of risk consolidation corresponds to the scope of consolidation used for accounting purposes. The risks do not differ significantly between the segments or are not concentrated in just one segment. Rather, the risks described in the following are present throughout the Group and across all segments.

In the course of this risk management process, the following issues have been identified which could have a significant or significantly adverse effect on the future development of the company.

As a consequence of the "Verbund Structure" of the AlzChem Group, the risks listed below have a similar effect on the three operating segments of the Group.

The risk management system presented here focuses primarily on business risks, but also takes advantage of opportunities. The opportunity management process is also integrated into our internal controlling processes and is carried out in the operating segments on the basis of the corporate strategy.

### 5.1.1. OPERATING RISKS

#### 5.1.1.1. RISK OF INCREASING PROCUREMENT PRICES

The most important raw materials for AlzChem's carbide/calcium cyanamide based product portfolio are lime, coke and electrical energy. In addition, a number of chemical raw materials are required for the production process. The market prices for lime, coke and energy as well as other chemical raw materials are subject to considerable fluctuations.

AlzChem procures energy mainly in the form of electricity, but also in the form of natural gas. Energy costs are influenced by various factors, including the availability of certain energy sources and fluctuations in energy prices. Energy prices, especially electricity prices, may rise in the future. The energy costs of large energy-intensive companies are particularly dependent on the regulatory environment. This includes taxes and certain regulatory charges on energy consumption or network use, which can account for a significant proportion of energy costs for large energy-intensive companies. In Germany, these taxes and charges could be raised in the future to compensate for the higher costs resulting from the phase-out of nuclear power and the switch from fossil fuels to renewable energy sources. In addition, AlzChem is dependent on certain exemptions from charges and taxes on energy (see section 5.1.3.).

The company has long-term electricity supply contracts in Germany with fixed electricity prices for certain electricity volumes for the years 2020 to 2021 and has agreed fixed prices for certain electricity volumes in Sweden for the years 2020 to 2022. On the one hand, this reduces the risk of rising electricity prices to a certain extent, but on the other hand, these agreements put AlzChem at a relative disadvantage compared to its competitors in a scenario of falling electricity prices. Furthermore, AlzChem is dependent in Germany on the respective suppliers fulfilling their contractual obligations to AlzChem to supply the agreed quantities of electricity at the fixed price.

The prices that AlzChem has to pay for certain raw materials are subject to fluctuations. Since AlzChem's primary raw materials are natural resources, their price is generally determined on the basis of general mining and production volumes as well as industrial demand. AlzChem has defined procurement strategies for the most important raw materials and concludes long-term supply contracts or annual contracts to minimize price and volume risks. Nevertheless, the company is not in a position to completely eliminate the risks arising from fluctuations in the price of raw materials. In addition, it cannot be ruled out that AlzChem may be bound by long-term supply contracts to higher prices in times of falling raw material prices, but may not be able to conclude advantageous supply contracts in times of rising prices.

An increase in raw material and energy prices can have significant negative effects on the business situation, net assets, financial position and results of operations of AlzChem even in times of a good general economic situation.

With regard to procurement price risks, management assumes a low to medium probability of occurrence and a medium impact on the net assets, financial position and results of operations.

#### 5.1.1.2. MARKET RISK

AlzChem offers a large number of different NCN-based chemical products in diversified markets, some of which are cyclical, highly volatile and sensitive to, among others, consumer spending and preferences, consumer confidence and income, unemployment rates, interest rates and energy prices. Therefore, demand for AlzChem's products may be affected by negative developments in diversified sectors and industries, in particular in the agricultural, feed, pharmaceutical, cosmetics, chemicals, metals, renewable energy and automotive industries, as well as in the nutrition market.

In the agricultural sector, the demand for AlzChem products depends on the production level, which is why the company is exposed to seasonal fluctuations as well as meteorological and climatic conditions. As the company usually sells its products through wholesalers or importers, changes in the retail trade in this sector, such as a potential shift to other wholesalers or importers or to direct marketing, may adversely affect the company. In addition, AlzChem's products are designed for certain methods of industrialized agriculture, so that a shift in consumer preferences towards agricultural products from non-industrialized agriculture could indirectly lead to a decline in demand. In addition, technological progress, for example in the field of genetic engineering, may lead to an increased use of other agricultural methods for which AlzChem products are no longer or only to a limited extent required.

In the feed and agrochemical industries, a change in consumer habits and preferences, for example an increasing trend to eat only meat from organic livestock farming, could lead to a decline in demand for AlzChem products. If consumers choose to consume less meat, it is in principle possible that this will also have a negative impact on the demand for AlzChem products.

In the pharmaceutical, cosmetic and chemical industries, the medicinal products for which AlzChem manufactures chemical building blocks usually undergo a product life cycle, at the end of which a new generation of the medicinal product is launched on the market. There is therefore a risk that AlzChem's products will no longer be needed in future generations of the medicinal products concerned or that AlzChem's customers will purchase them from a different supplier. In the cosmetics sector, the company is exposed to cyclical fluctuations in consumer markets, while in the chemical products sector there is a risk of a decline in demand as a result of an economic downturn.

In the steel industry, demand for AlzChem's products is also exposed to the risk of an economic downturn. In addition, technological changes in steel production, such as a possible shift to steel production from scrap that does not require desulphurization, could lead to a decline in demand for

AlzChem products. After the European steel industry has lost ground to its Chinese competitors in the past and has seen a trend towards consolidation, it cannot be ruled out that these developments will also have a negative impact on AlzChem.

In the renewable energy sector, AlzChem is exposed to developments in the photovoltaic and wind energy industries, as both are innovative industries with potential for continuous technological change, which could lead to a decline in demand for AlzChem's products or even make them superfluous. In China, government subsidies for the use of renewable energies are to be reduced.

In the automotive industry, AlzChem is particularly dependent on demand for passenger cars and commercial vehicles, which is directly linked to the state of the world economy. For example, a further economic slowdown in China, which is now the world's largest market for passenger cars and commercial vehicles, would have a negative impact on vehicle demand.

In the food sector, AlzChem's dietary supplements are subject to cyclical fluctuations in consumer markets. In addition, demand depends on the general acceptance of dietary supplements.

In certain segments and industries in which AlzChem operates, customers typically adjust their sourcing activities to the expected growth rates in their respective markets. During an actual or expected economic downturn, these customers seek to reduce their working capital and inventories, which may result in a significant decrease in the sales volume of AlzChem's products. During upswings, customers tend to replenish their inventories, which may result in higher demand for AlzChem's products. This build-up and decrease of inventories affects both actual and projected demand for AlzChem's products and may result in unexpected or unexpectedly strong fluctuations in demand. This in turn can result in unexpected changes in production volumes and capacity utilization at AlzChem that are highly correlated with the company's operating result due to the costs and investments required to operate the production facilities.

A decline in demand in one of AlzChem's markets, which is possible even in times of generally good economic conditions, could have material adverse effects on AlzChem's business situation, net assets, financial position and results of operations.

In terms of market risk, management assumes a medium to high probability of occurrence and a medium impact on the net assets, financial position and results of operations.

### 5.1.1.3. COMPETITION RISKS

AlzChem faces different levels of competition with its various products. The company is a regional leader in some areas because international competitors are less active in these regions due to the geographical distance of the region and the chemical specifications of the products concerned. In other areas, on the other hand, there is intense competition. In some key markets, the main competitors are from China and India, where they benefit from cost advantages in the areas of human resources, energy, waste management and the environment. In other markets, AlzChem competes with well-established and strong competitors from leading industrial regions, which are often globally active and have global distribution networks.

Some competitors – mainly in emerging markets – may deliver certain products below the normal market prices, forcing AlzChem to lower their sales prices, which could have material adverse effects on margins and profitability. Various factors may affect the price at which a competitor is prepared to deliver its products, including access to cheap commodities and government grants to which AlzChem has no access. In addition, state-owned or state-supported competitors could resort to dumping measures such as capacity increases and/or price reductions.

AlzChem's ability to maintain or increase profitability depends on the ability to offset falling product prices and margins by improving production efficiency and increasing sales volumes, focusing on individualized, higher-margin products, and improving existing products and applications through innovation – all measures that competitors may be able to implement better and more cost-effectively than AlzChem.

For many products, there are other criteria besides price, such as the performance and quality of the product, pricing strategies, product availability and security of supply. It is possible that competitors will be more successful in meeting customer requirements for product features and cost-effectively producing. In the future, price competition for a larger portion of AlzChem's products could increase, forcing AlzChem to lower its prices.

The competition could also be intensified by new entrants or companies consolidating their business activities and achieving economies of scale. Some competitors have or may have higher production capacities than AlzChem and may have more financial resources. These competitors could also have much greater operational and financial flexibility than AlzChem. As a result, these competitors may be better able to withstand volatility in their respective market, commodity or energy price changes or unfavorable economic conditions.

In addition, AlzChem may face increasing competition from companies that offer products based on alternative materials, technologies and processes, and that may be more competitive or superior in price or performance, thus gaining current customers of AlzChem, leading to a decline in sales at AlzChem.

The occurrence of one or more of the risks described above could have material adverse effects on AlzChem's net assets, financial position and results of operations.

In terms of the competitive risk, management assumes a medium to high probability of occurrence and a medium impact on the net assets, financial position and results of operations.

#### 5.1.1.4. SUBSTITUTION RISKS

In the chemical sector, there is a latent risk that individual compounds will be replaced by other chemical substances or compounds. However, this is expected to be so small that the impact on the net assets, financial position and results of operations will be very low.

In the market environment of agriculture and metallurgy, there is a latent risk of substituting certain substances, e.g. magnesium-based hot metal desulphurization instead of calcium carbide-based hot metal desulphurization or at the use of calcium ammonium nitrate 27% N or ammonium nitrate-urea solution 30% N instead of Perlka®. The Group counteracts these risks by developing customer-specific products, intensive technical support and advice to customers, and joint (new) product development geared specifically to the needs of the customer.

Particularly in the agricultural environment, application consulting and intensive customer contact are required, so that AlzChem is able to significantly reduce the net risks through the established structures, and thus the impact on the net assets, financial position and results of operations can also be classified as very low to low.

In addition to the substitution risks of the market, the Group is also exposed to the risk of substitutions based on regulations and laws. AlzChem works very closely with a large number of renowned scientists in order to comply with all current and future legal requirements. Nevertheless, it cannot be ruled out that individual substances may no longer be placed on the market in the short, medium or long term.

With regard to the substitution risks, management assumes a low to medium probability of occurrence and a low to medium impact on the net assets, financial position and results of operations.

#### 5.1.1.5. DISTRIBUTION RISKS

Despite the high product diversification of the Group portfolio, there is a certain concentration on the customer side. AlzChem supplies a large number of global players in the global chemical industry and is thus exposed to an industry-specific risk. This is countered with a wide range of products and contract-based cooperation. In addition to customer-specific product developments, substances for a wide variety of applications are also researched, sampled and manufactured. The change of Creamino® distribution to own distribution could result in customers buying less, as AlzChem is less well known and is not perceived as a feed expert. AlzChem is subject to a latent risk in connection with its entry into own distribution of the product Creamino® purely due to the fact that the market approach is now carried out directly via or from the AlzChem sales organization. In recent months, a complete sales organization and application technology have been set up. Creamino® is very well positioned and established on the market worldwide, and we have a functioning sales organization in agriculture. We are now extending this range sustainably and substantially with the addition of Creamino®. New regions and new animal species are also on our agenda. We are currently assuming that the growth curve will take a short breather, but could continue to rise steadily in the long term.

With regard to the distribution risk, management assumes a low to medium probability of occurrence and a medium to high impact on the net assets, financial position and results of operations.

#### 5.1.2. FINANCIAL MARKET RISKS

##### 5.1.2.1. CURRENCY RISK

The reporting currency of AlzChem is the euro (EUR). However, AlzChem owns subsidiaries in the US, Sweden and China, which are accounted for in the local currency, i.e. in US dollar, Swedish krona or Chinese renminbi. In addition, AlzChem operates in a large number of countries around the world. Consequently, the company is exposed to risks due to exchange rate fluctuations, in particular with regard to the exchange rate between the euro and the US dollar (USD), the Chinese renminbi (CNY), the Japanese yen (JPY) and the Swedish krona (SEK).

Assets and liabilities of foreign subsidiaries are translated into euros at the exchange rate prevailing at the end of the reporting period. Income statements of foreign subsidiaries are translated into euros at the average exchange rate during the period. Accordingly, if other currencies fluctuate against the euro, the other result and thus the equity of AlzChem will increase or decrease.

AlzChem Group companies enter into transactions in currencies other than their functional currencies. These transactions are booked in the applicable functional currency of the relevant company using the exchange rate on the day of initial booking. Subsequent changes in this exchange rate will result in gains or losses on currency translation reported in the consolidated income statement under other operating income or other operating expenses. Thus, AlzChem is exposed to the risk that currency translation will result in losses and that any income from currency translation will be lower than in previous periods.

Additional currency risks arise from exchange rate changes in recorded financial and operating positions (including receivables and payables) and expected operating positions. These items include commodities and/or the sale of products whose prices are denominated in currencies other than the functional currency of the operating unit. Unfavorable exchange rate changes may result in higher costs or lower sales than expected at the time of the contract, as well as lower margins.

The transactions concluded by AlzChem Group companies in foreign currencies relate to the procurement of raw materials and the sale of goods. In particular, the purchase of raw materials is to a large extent in USD and CNY. In addition, a significant portion of sales is in USD, CNY and JPY. Although AlzChem's US dollar-denominated purchases and sales are to a certain extent a "natural hedge", the cost of US dollar-denominated purchases during the reporting periods was less than half of the value of US dollar-denominated sales in those periods. As a result, changes in the USD, CNY and/or JPY exchange rates against the EUR may have a significant impact on AlzChem's financial position and results of operations.

In addition to the direct impact of currency fluctuations on AlzChem's consolidated income statement and therefore the company's consolidated equity base, foreign exchange movements may also affect the operating business. Changes in foreign exchange rates (such as an appreciation of the EUR against the JPY and a depreciation of the EUR against the USD/CNY) would negatively affect AlzChem's competitiveness in certain markets.

Risks arising from exchange rate fluctuations and insufficient hedging against them could have a material adverse effect on AlzChem's business, assets, financial and earnings position.

Although the probability of occurrence is regarded as medium to high, the effects on the net assets, financial position and results of operations are classified as very low to low.

In addition to the risks described above, AlzChem is also subject to possible negative influences from currency losses in so-called high-inflation countries due to its global market presence. We consider these risks to be very low for the AlzChem Group and counter them by, among other things, avoiding delivery in the affected currencies.

#### 5.1.2.2. INTEREST RATE DEVELOPMENTS AS A RISK FOR PENSION OBLIGATIONS

The AlzChem Group has obligations to current and former employees from pensions and other post-employment benefits. Changes in relevant valuation parameters, such as the discount rate, mortality rates, wage and salary increase rates, and pension growth rates, may result in an increase in the present value of pension obligations. The provision for pensions determined in accordance with IAS 19 was recognized in the amount of EUR 134,629 thousand in the AlzChem Group.

Changes in the discount rate unfold c. p. significant effects within the balance sheet (equity) and the income statement (personnel expenses, financial result). The Group takes this fact into account by regularly reassessing the obligations and thus ensuring that the values shown in the balance sheet are highly up-to-date.

With regard to interest rate risk, management assumes a medium to high probability of occurrence and a low to medium impact on the net assets, financial position and results of operations. The Management Board periodically conducts a scenario review with regard to compliance with the financial covenants figures, thus ensuring that changes can be detected at an early stage and countermeasures can be initiated on this basis.

#### 5.1.2.3. LIQUIDITY RISKS

A central financing department is in place to manage the Group's liquidity risks, which among other things ensures the liquidity of the Group companies via a cash pooling structure. In addition, a diversified financing structure ensures the financial independence of AlzChem. We are of the opinion that the available financing instruments can ensure an adequate supply of liquidity at all times. Existing credit risks arising from financial contracts are systematically reviewed upon conclusion of the contract and monitored on an ongoing basis thereafter.

With regard to the liquidity risk, the management assumes a very low probability of occurrence and a very low to low impact on the net assets, financial position and results of operations.

As of December 31, 2019, AlzChem had not entered into any hedging transactions (sec. 315 para. 2 no. 1 HGB), so that no risks for or effects on the net assets, financial position and results of operations are to be expected.

AlzChem addresses market opportunities and risks as well as liquidity and default risks from financing instruments through an active risk management approach. By actively monitoring cash flows, we can minimize latent risks and initiate appropriate countermeasures at an early stage.

### 5.1.3. REGULATORY RISKS

#### 5.1.3.1. ENERGY LAW

In Germany, AlzChem is currently benefiting from cost and tax reductions and exemption regulations for electricity costs under the Renewable Energy Act (EEG), the Combined Heat and Power Act (KWKG), the Electricity Fee Ordinance (StromNEV), the electricity price remuneration and certain exemption regulations with regard to electricity tax. All of these regulations allow energy-intensive industries to operate at a lower cost of electricity to improve their overall competitiveness. Taken together, these regulations result in significant reductions in AlzChem's energy costs. Without these discounts, AlzChem would not be able to operate competitively and would have reported negative operating results in all reporting periods. In this respect, a negative development for the Group could have an adverse effect.

The EEG regulates the financial support of energy from renewable sources. Moreover, as a basic principle, utilities have to pay the so-called EEG levy to finance the promotion of renewable energy for every kWh of electricity they supply to end users. Utilities pay the end users the EEG surcharge.

However, under certain conditions, the EEG provides for reductions in the EEG surcharge for energy-intensive companies<sup>16</sup> in select sectors. This reduction can be granted annually at the request of the Federal Office of Economics and Export Control (BAFA). In the past, AlzChem has benefited from reductions<sup>17</sup> in the EEG surcharge at three points of sale and also used this reduction scheme in 2019. In December 2019, new requirements were imposed on the application concerning the special compensation arrangements by resolution of the so-called Energy Collection Act. AlzChem still considers itself in a position to meet the application requirements for the year 2020 and will submit the required documents on time by March 31, 2020.

The StromNEV contains regulations on network charges. According to sec. 19 para. 2 StromNEV, energy-intensive companies that consume at least 10 GWh at a collection point and reach a number of hours of use of at least 7,000 hours<sup>18</sup> per year are entitled to an individual network fee for the respective collection point. On this basis, AlzChem is currently benefiting from reduced network charges for the points of sale in Hart and Trostberg.

Under the KWKG, a moderate financing for combined heat and power (CHP) is provided. This financing is based on a surcharge on the network charges (KWKG surcharge) and thus leads to an increase in the general energy prices. This surcharge is always charged in full with an annual consumption of up to 1 GWh. However, energy-intensive companies such as AlzChem benefit from a limitation of the KWKG surcharge. Following discussions between the German Government and the European Commission, the KWKG, and in particular the regime for energy-intensive companies, has been amended to bring it into line with EU state aid rules. Under the new regulations, which came into force on January 1, 2017, companies meeting the requirements for reducing the EEG surcharge are also entitled to a reduction in the CHP levy. In its press release of May 23, 2017<sup>19</sup>, the EU Commission approved under the EU State aid rules the rebate for levies for energy-intensive businesses.<sup>20</sup>

<sup>16</sup> The special compensation scheme was approved by the EU Commission in July 2014 for ten years under state aid law.

<sup>17</sup> Leaflet for electricity cost-intensive companies 2017, Federal Office of Economics and Export Control, page 25 3.3 Period of proof for determining electricity cost intensity

<sup>18</sup> Calculated as the quotient of the electrical work extracted or fed in per year and the highest load extracted or fed in that year – sec. 2 no. 3 StromNEV

<sup>19</sup> European Commission – Press release Brussels, May 23, 2017 “State aid: Commission approves reductions in CHP levies for energy-intensive companies in Germany and Italy” IP/17/1440

<sup>20</sup> The Commission's approval is limited to 10 years according to recital 39 of Decision C (2017) 3400 final of May 23, 2017.

Under the energy price remuneration scheme, eligible companies can apply for State aid to be financially compensated for the rising electricity prices due to emissions trading. The State aid is limited to companies from certain economic sectors with particularly high-flow production processes – such as AlzChem. The grant will be granted at the discretion of the competent authority, upon application by the beneficiary; there is no legal entitlement to the grant of the aid. For the first time in 2014, companies were able to apply for remuneration for indirect CO<sub>2</sub> costs in 2013. AlzChem has been granted electricity price remuneration in the past. The company also expects to receive such electricity price remuneration for the future. However, the electricity price remuneration is only valid until 2020 and is limited annually to a fixed total amount. In addition, the State aid will gradually be reduced from 2013 to 2020. Furthermore, the price for CO<sub>2</sub> certificates was fixed at with EUR 5.88 per certificate in the electricity price compensation. Since then, market prices for CO<sub>2</sub> certificates have risen significantly.

Furthermore, AlzChem, as a distribution network operator, is currently benefiting from an agreement with a neighboring distribution network operator that requires both parties to pool two network connections and to calculate a common network charge. In the case of a pooled calculation of network user charges, the network charges generally fall because the cost intensive peak loads are straightened out. Pooling is thus beneficial for AlzChem because it reduces network usage fees. However, according to a recent court decision, it is currently unclear whether the legal basis for this pooling, sec. 17 para. 2a StromNEV, is valid. Although the Federal Court of Justice recognized the pooling regulations in two decisions in 2018 (EnVR 22/17 and EnVR 32/17), we believe that a latent residual risk cannot be completely ruled out.

Furthermore, there is the possibility that the conditions or the scope of the aforementioned cost and tax reductions and exemption regulations –

- the reductions in the EEG surcharge,
- the network charges and
- the KWKG surcharge,
- the electricity price remuneration,
- the exemptions from the electricity tax,
- as well as the pooling of network connections and
- the collection of a common network user charge

– will be amended by new statutory provisions, that these rights are abolished, that regulators exercise their discretionary powers with respect to these privileges to the detriment of AlzChem, or that jurisprudence substantiates legal requirements to the detriment of AlzChem.

While it is likely that some of the cost and tax reductions and exemption regimes for energy-intensive industries will be largely maintained in the future in order to enhance their international competitiveness, there is also a general legislative tendency – often triggered by EU state aid controls – to dismantle appropriate privileges.

Cost and tax reductions and exemption regulations for energy-intensive companies have been or are being criticized in the political debate on a regular basis and representatives of certain political parties have repeatedly called for the abolition of existing rights. Therefore, it cannot be ruled out that in future, politically driven, the abolition of rights for energy-intensive industries will be demanded. In addition, legislative measures in other areas of energy regulation, such as restrictions on nuclear power generation in Germany and State support for renewable energy, have led to and will continue to increase energy costs in general.

The grand coalition's agreed climate protection program 2030 will burden AlzChem with additional costs in the future. The Europe-wide, comprehensive certificate trading for all

sectors, including the so-called non-ETS<sup>21</sup> plants, will trigger this cost burden for AlzChem. Even though the company has been investing in energy recovery, waste heat utilization and process efficiency for years, annual costs of up to EUR 1 million are conceivable.

All these aspects carry a high risk that AlzChem will have to pay significantly higher energy prices, which would have material adverse effects on the business situation, net assets, financial position and results of operations.

In terms of risk assessment related to changes in this complex area of law, management assumes a very low to low probability of occurrence but with a very high impact on the net assets, financial position and results of operations.

Against this background, there is no material uncertainty at the time the financial statements are prepared that could cast significant doubt, individually or collectively, on the company's ability to continue as a going concern.

#### 5.1.3.2. BREXIT

The AlzChem Group also has business relations with companies from the United Kingdom. Due to its rather subordinate scope, the Group now assumes with a medium to high probability of occurrence that there will also be lasting changes or administrative hurdles in the B2B business, but that these will not be of major significance for the net assets, financial position and results of operations.

#### 5.1.3.3. APPROVALS

In August 2019, the European Chemicals Agency (ECHA) published a preliminary opinion prepared on behalf of the EU Commission, which proposes to prohibit the use of calcium cyanamide as a fertilizer after a three-year transition period. In September 2019, a six-month public consultation process on this expert opinion, which is expected to end in March 2020, began, in which AlzChem also participated with extensive

newer data not previously included in the opinion. AlzChem assumes that the previously proposed ban on use cannot be maintained unchanged or may even be dropped altogether if these data are taken into account appropriately. Nevertheless, it cannot be ruled out that the final expert opinion will continue to recommend a ban on use.

If the EU Commission were to follow such a recommendation, AlzChem would have to prepare itself for lower demand for Perlka® in its capacity as a fertilizer and possibly also for other products to which the ECHA argumentation could be applied. It is not certain whether the transition period of several years regularly available for a ban on use would be sufficient to fully compensate in particular for the loss of sales threatened by this - for example, through growth in other markets or areas of application or with other products.

With regard to this regulatory risk, management assumes a medium to high probability of occurrence and a medium impact on the net assets, financial position and results of operations.

#### 5.1.4. COMPLIANCE RISKS

The AlzChem Group operates production facilities in Germany and Sweden as well as sales companies in the US and China, so that due to the complex international and national legal situation there is already the latent risk of a breach of the rule. For this reason, the Group has appointed a compliance manager and set up a compliance organization. Our compliance management system aims to ensure the lawful, responsible and sustainable conduct of our employees. Potential violations should be recognized in advance and systematically prevented.

The compliance management system thus makes a significant contribution to the integration of compliance in our operating business units and their processes. Regular training courses for employees in Germany, Sweden, US and China are intended to increase understanding and sensitivity to the issue.

With regard to the risk of fundamental compliance violations, the management assumes that the established organization has a high impact, so that a very low probability of occurrence and a very small negative impact on the net assets, financial position and results of operations is seen.

#### 5.1.5. LEGAL, PROCESS AND LAW CHANGE RISKS

The AlzChem Group is exposed to numerous risks arising from legal disputes or proceedings. These include, in particular, risks in the areas of product liability, antitrust law, competition law, patent law, tax law and environmental protection. Currently, the Group is not in any significant court or arbitration proceedings that could have a material impact on the economic position of the Group.

AlzChem's business activities, in particular its sites, facilities, products and operations, must comply with and are influenced by a variety of different regulatory requirements in the countries in which the company operates. The regulatory framework for AlzChem's business is subject to ongoing legislative changes and developments that may require costly compliance measures. In particular, the regulatory framework for environmental protection, health and safety matters in general and for the manufacture and placing on the market of products is subject to frequent changes, which in most cases lead to the imposition of stricter requirements. These stricter requirements usually result from scientific progress or from a change in the social acceptance of risks, which is relevant for AlzChem's product portfolio consisting of health and safety-sensitive products.

Constant legislative change and development are of great importance to AlzChem as the company operates in regulated areas where authorizations, permits, certificates and other permits, such as product permits and water-related permits, are usually granted for a limited period of time only and only

be extended if – possibly amended – requirements are met. In principle, there is no certainty that AlzChem will be in a position to extend all permits, certificates and permissions required for its business activities.

In addition, existing permits, authorizations, certificates and permissions may be subject to restrictions or obligations by the competent authority at a later date in order to impose more stringent legal requirements. In particular, AlzChem's existing authorizations, approvals, allowances and registrations, listings or other forms of approval for placing products on the market may be limited in time or revoked due to the evolving scientific knowledge that underlies certain risk assessments. In addition, many legal – especially environmental – regulations refer to undefined legal terms such as "state of the art" or "state of science and technology". For this reason, given technological advances and scientific developments, it may be necessary to adapt equipment, systems and other equipment, processes and products without any explicit legal change.

In German law, the most relevant environmental change for AlzChem is currently the amendment of TA Air, which is expected in 2020. Here, stricter limit values and a number of additional regulations are to be expected. At the same time, the BREF document "Waste Gas Treatment in the Chemical Industry" is being prepared at EU level, so that significant tightening in the area of immission control can be expected in the next four to five years.

In the course of the implementation of the amended Major Accidents Ordinance (2017), there was more clarity on enforcement details in the course of 2019. Further intensification of enforcement is expected, above all, from the legal authorities at state level. In particular, AlzChem expects more complex administrative requirements with regard to application procedures and public participation.

In water law, the Ordinance on Installations for Handling Substances Hazardous to Water (AwSV) (in force since August 1, 2017) entails more stringent protective measures. Overall, there are signs of a considerable increase in the bureaucratic burden on AlzChem in the future, for example regarding notifications in connection with suitability determinations under water law. It is also to be expected that the time and effort required to apply for new water law discharge permits for the wastewater from the sites will increase considerably over the next five years. This development, roughly over the last ten years, is based above all on the integration of EU law and EU legal language into German environmental law. Lastly, new regulations are being prepared in Germany in an amended Waste Water Levy Act, with additional pollutant parameters, so that a significant increase in costs can be expected here.

#### 5.1.6. IT RISKS

The worldwide increase in threats to information security and greater professionalism in computer crime are leading to risks relating to the security of products, systems and networks, as well as risks relating to the confidentiality, availability and reliability of data. A threat to critical IT systems and applications can have a direct impact on production or supply chain operations. If data is not available or is manipulated, this can jeopardize, for example, plant security and the accuracy of financial reporting. Unauthorized access to sensitive data, such as information relevant to competition law or research results, can endanger our competitive position. In addition, there is the associated loss of reputation.

To minimize such risks, information security is an integral part of our business processes. Since 2017, all German sites of AlzChem have been certified in all divisions according to the globally recognized ISO/IEC 27001 standard. Our asset-based risk management of information security has the task of controlling threats in an economical way. Particular attention is paid to further increasing the security awareness of all employees in their daily handling of sensitive information. To this end, our employees receive regular training on

information security and data protection. Our critical business processes are operated on redundantly designed high-availability systems. Data backup procedures correspond to the state of the art. We regularly have the effectiveness of measures to protect our stable IT systems, backup procedures, virus and access protection, encryption systems and physical access perimeters checked by independent tests and audits. Cyber insurance minimizes the residual risk.

With regard to risk assessment, management assumes a very low to low probability of occurrence and a very low to low impact on the net assets, financial position and results of operations.

#### 5.1.7. SUMMARY PRESENTATION OF THE RISK SITUATION

The risk situation of the AlzChem Group has not changed significantly compared to the short fiscal year 2018/I and the short fiscal year 2018/II. The current valuation shows that today, none of the previously reported risks threaten the existence of the company. In addition, we were unable to identify any interdependencies that could threaten the survival of our company. Due to our wide-ranging product portfolio, our expertise and market expertise as well as our sustained innovative strength, we are convinced that we can realize the opportunities arising from our entrepreneurial activities and successfully meet the challenges arising from the aforementioned risks.

#### 5.2. OPPORTUNITY REPORT

As part of our risk management, we also regularly identify and evaluate opportunities that arise in our business areas. However, these represent only a small but for us the most significant part of the possibilities that are offered to us. Moreover, the evaluation of the opportunities is subject to continuous changes. The most significant opportunities listed here are pursued with equal weight. We actively pursue the opportunities and transfer them into our internal control parameters. In this regard, we refer to our above-mentioned performance indicators.

The scope of opportunity consolidation corresponds to the scope of consolidation used for accounting purposes. The opportunities do not differ significantly between the segments or are not concentrated in just one segment. Rather, the opportunities described in the following are present throughout the Group and across all segments.

### 5.2.1. DIVERSIFICATION

The AlzChem Group operates a stable NCN pedigree with the main products calcium carbide, fertilizers calcium cyanamide/Perlka®, cyanamide, dicyandiamide, nitroguanidine and other high-quality derivatives such as DYHARD®, Creapure® and Creamino®. The company strives to leverage the opportunities for growth through a combination of diversification, market penetration and market development. In addition to traditional products, the company continues to invest in new products such as Creamino®, NITRALZ® and LIVADUR®.

The entire product range is sold predominantly in the markets of nutrition, renewable energies, fine chemicals, pharmaceuticals, agriculture and metallurgy. Due to the broad product range and the large number of end markets, the company has so far developed with stable revenue and earnings growth. This high degree of diversification permanently supports a very balanced sales and earnings growth, with its pillars in many different market segments and sectors. To date, the Group has always succeeded in offsetting or even more than compensating for economic or regional sales fluctuations in one sector by growth in another segment or country.

### 5.2.2. GLOBAL PRESENCE

Thanks to its global presence in more than 70 countries, comprehensive market potential is identified and rigorously implemented with in-house developed project tools and implemented in the short, medium and long term.

### 5.2.3. MARKET ENTRY BARRIERS

AlzChem profits from the barriers to entry to the markets in which the company operates. For potential new competitors, it may be time consuming and costly to introduce an integrated production network similar to that operated by AlzChem, obtain certifications, registrations and approvals for equipment and products in a highly regulated market environment and the level of AlzChem to achieve know-how and industrial property rights.

#### Integrated "Production Verbund"

AlzChem is a vertically integrated manufacturer of specialty chemicals in the "NCN Verbund". Competitors focus on different sectors of the "NCN Verbund", while AlzChem's integrated "Production Verbund" allows it to cover the entire NCN chain. The integrated "Production Verbund" gives the company special flexibility in order to be better able to handle changes in the demand for individual products.

In addition, AlzChem is less dependent on specific industries due to its broad product range and focus on different markets. The diversified business model in conjunction with the integrated manufacturing network makes it more likely that negative developments in one industry can be offset by positive developments in other industries, in particular due to the synergies that AlzChem can achieve in the production process and in research and development because many of the company's products are based on the "NCN Verbund".

In addition, the Specialty Chemicals segment is not dependent on external suppliers of calcium carbide-based intermediates. AlzChem is thus less exposed to adverse market trends. In the view of the company, all of these factors require an efficient and resilient business model that has proven to be stable and, due to its cost-competitiveness, financially successful. AlzChem is able to leverage its manufacturing facilities for a variety of products, despite the high degree of specialization of the Specialty Chemicals segment, giving the company, in its view, a competitive edge in resource efficiency as a result of vertical integration.

### Regulatory entry barriers in the markets

Some of the sectors in which AlzChem operates are heavily regulated. This applies in particular to the market for chemical products in general, the market for biocidal products and plant protection products, the market for food supplements and animal feed additives and the pharmaceutical and cosmetics sectors. AlzChem has the necessary approvals, registrations and certifications to produce and distribute its products in these highly regulated markets. The company has obtained certain certifications, registrations and approvals, which may be difficult, expensive or time-consuming for potential competitors to obtain. For example, AlzChem operates facilities that are in line with the principles of good manufacturing practice (GMP). Compliance with this GMP is a regulatory requirement for, among other things, the production of medical and cosmetic products in the EU. AlzChem has also obtained two health claims for its Creapure® product, and may therefore provide specifics when promoting the product.

### Know-how, brands and industrial property rights

High product quality, delivery reliability, process know-how and industrial property rights are the result of AlzChem's research and development activities, making it difficult for competitors to enter the markets where the AlzChem brands predominate. Innovations and know-how are of fundamental importance, especially in the Specialty Chemicals segment. In addition, several AlzChem products are protected by patents that prevent competitors from imitating AlzChem products and selling them at lower prices. As of the current reporting date, the company holds 524 granted patents and another 87 patent applications. AlzChem also holds 765 registered trademarks and 115 trademark applications.

#### 5.2.4. GROWTH POTENTIAL IN LINE WITH MEGATRENDS

AlzChem sells its products in diversified markets that are expected to evolve in line with global megatrends and have the potential to grow steadily, thus benefiting AlzChem's business development.

### Population growth

In 1900, about 1.7 billion people lived worldwide. Only 17 years later, the world population amounted to around 7.6 billion. The United Nations expects a realistic increase to over 8.6 billion people by 2030<sup>22</sup>. AlzChem considers itself well positioned to benefit from this megatrend. The fertilizers and other agricultural products of its Specialty Chemicals and Basics & Intermediates segments are driving the growth of industrial agricultural production. Creamino®, for example, is a patented feed additive in the AlzChem Specialty Chemicals segment, which is used worldwide. It leads to a better supply of the important biomolecule creatine. This improves the energy supply and ultimately promotes healthy growth and efficient feed consumption. In addition to its use for poultry, Creamino® could be used more widely in pig feed in various countries, as well as in Europe, which enables better feed conversion, increased carcass weight, shorter fattening time and, in the case of poultry, a higher proportion of breast meat. Therefore, AlzChem is convinced that it can benefit from the increasing industrialization and standardization of meat production, which are compounded by the limited availability of land and population growth.

### Healthy aging

AlzChem expects the pharmaceutical industry, and in particular the segment of active pharmaceutical ingredients (API), to benefit from an aging population, increasing consumer health awareness (especially in emerging markets), the emergence of new carriers in the pharmaceuticals industry, and increased lifestyle and age-related illnesses.

AlzChem estimates that the food industry is impacted by increasing consumer health awareness and innovation in health technologies. The products Creapure® and LIVADUR®, dietary supplements previously marketed by AlzChem primarily to the sports nutrition industry to promote muscle growth and physical performance, and Bioselect®, which consists of high purity guanidine hydrochloride and is used in biotechnology, diagnostics and the pharmaceutical industry,

should benefit from these megatrends – especially since some of these products may also be used in niche areas of cosmetics and healthcare.

### Energy efficiency

On December 12, 2015, 195 countries signed the Paris Agreement to reduce greenhouse gas emissions. Despite the announced withdrawal of the USA, AlzChem expects these and other related policy developments to contribute to the megatrend of replacing fossil fuels with renewables in the medium to long term. Against the background of record greenhouse gas emissions<sup>23</sup>, extremely high temperatures and a sharp rise in ice melting in the Arctic, the company expects that there will and must be a worldwide increase in photovoltaic and wind power plants as sources of renewable energy.

The Specialty Chemicals segment of AlzChem includes, amongst others, the DYHARD® product group used in wind turbines, as well as in the automotive and aerospace industries, reducing the weight of automobiles and aircraft and thus improving their energy efficiency. For the full year 2019, more than half of the Specialty Chemicals segment's sales was attributable to the megatrends of population growth, healthy aging and energy efficiency.

### 5.2.5. STRONG BRANDS

AlzChem has approximately 765 registered trademarks and has filed approximately 115 trademark applications. This broad, established range of trademarks offers the company special market opportunities.



### 5.2.6. DIRECT SALES

AlzChem has continued to successively expand its direct sales channels for various products in the past fiscal year. This will be maintained in 2020 so that AlzChem can offer a more attractive price and service range based on greater customer proximity. The entry into own distribution of our product Creamino® also creates numerous opportunities and possibilities. For us, there is the chance that we will now be able to extend the integration, which is already deeply anchored in our DNA, to the full added value of our currently most promising product. Our proximity to our customers enables us to respond more specifically to the requirements and wishes of the customers and thus constantly adapt our Creamino® to customer and market requirements.

### 5.2.7. SUMMARY PRESENTATION OF OPPORTUNITIES

Although the pure number of reported risks described may appear to be higher than the number of the identified concrete opportunities, we consider the distribution of risks and opportunities to be balanced. A balanced overall picture is also reinforced by the fact that sales revenues and economic success are based on a stable mix of new, high-growth products and brands established in the market in various

<sup>23</sup> Emissions of the three most damaging greenhouse gases carbon dioxide (CO<sub>2</sub>), methane and nitrous oxide reached a new record level in 2017, as was stated in the annual report for 2017 of the American Meteorological Society (AMS) and the National Oceanic and Atmospheric Administration (NOAA). According to that, the worldwide carbon dioxide concentration in the past year rose to a value of 405 ppm. This is the highest value since the start of this measurement. Since the early 60s, the increase in CO<sub>2</sub> in the atmosphere has almost quadrupled, as stated by the US experts.

industries. As markets differ in their structure and economic cycles, this diversification contributes to risk mitigation. We invest selectively in promising sectors via our growth product Creamino® as well as the product areas of renewable energies, nutrition and NITRALZ®. The topic of innovation is the focus of our activities in all activities.

The activities listed above provide significant opportunities for the medium to long term beyond the underlying forecast horizon. We track the opportunities that arise and specify the anticipated effects in terms of the forecast development of sales revenues, EBITDA and consolidated net income. Furthermore, we will actively seek new opportunities, examine their implementation and, if necessary, promote them. If, in addition to the forecast developments, opportunities arise or occur sooner than expected, this could have a positive impact on our net assets, financial position and results of operations.

## 6. FORECAST REPORT

The forecasts of AlzChem Group AG for the fiscal year 2020 are based on the following assumptions:

- global growth of 2.5% to 3.0%
- EUR/US dollar exchange rate of USD 1.12
- no significant distortions on the purchasing and sales markets
- existing approvals are retained

The following table provides an overview of the projected ranges and values of financial performance indicators of the Group for the fiscal year 2020:

Forecast for 2020	Unit	2019	Forecast 2020
Group sales	EUR thousand	376,072	slightly rising to sharply rising
Adjusted EBITDA	EUR thousand	50,078	stable to sharply rising
Adjusted EBITDA margin	%	13.3	stable
Adjusted EBIT	EUR thousand	30,586	stable to sharply rising
Inventory ratio	%	19.8	stable to slightly declining
Equity ratio	%	17.9	slightly rising
Debt ratio		0.79	stable

The planned sales growth is to be achieved organically. Volume effects are the primary growth driver. Price effects will play a role to the extent that the situation on the raw material markets may require. The goal will continue to be to develop the product mix even further towards complex molecules and value-added chain-intensive products, thus generating additional impetus for sales and earnings.

The business development in the segments shows stable growth. In the Specialty Chemicals segment, we expect to expand our Creamino® business and gradually convert our research and development pipeline into products.

The Basics & Intermediates segment will be supported by further growth in the NITRALZ® product area. However, the agriculture and metallurgy sectors are also expected to remain at least stable. The expansion of the product range can facilitate additional growth here. There is some degree of uncertainty about developments in the automotive sector, whereby it is doubtful whether a certain recovery will begin as early as 2020.

The Other & Holding segment is expected to generate stable sales at the chemical parks in Trostberg and Hart.

The start of additional capacity at the new Creamino® production plant and the expansion of the NITRALZ® plants since mid-2019 will form the basis of the Group's volume growth in 2020. In 2020, efforts to adapt the plant infrastructure to the increased requirements will also be continued. At the same time, continuous process optimization and the elimination of bottlenecks will be driven forward.

On the earnings side, no further significant cost increases are expected from the raw materials sector. Management believes that the market is tending to calm down somewhat in this area. Although the energy sector is still considered volatile and difficult to forecast, electricity prices on the German and Swedish stock exchanges have been showing a stable or even falling trend for several weeks and months. However, the forwards to 2022 remain at a level above that of AlzChem's past fiscal year.

Personnel expenses of the AlzChem Group are expected to rise by 3% to 5%, triggered by staff increases and regular collective bargaining adjustments.

In summary, AlzChem aims to build on a stable Basics & Intermediates business by developing the products of the Specialty Chemicals segment and anchoring them more strongly and more broadly in the market. AlzChem continues to plan to serve niche and volume markets with a highly diversified product and customer portfolio and to attract attention with special customer solutions.

A stable to slightly declining trend is forecast for the financial performance indicator inventories. Based on the findings of the optimization project launched, measures will be implemented and further advanced in 2020. AlzChem continues to expect seasonal ups and downs in inventories. AlzChem is also continuing its efforts to store electricity in the form of product, so that temporary fluctuations in procurement prices can be smoothed out under certain circumstances.

One of the Group's maxims is an extremely high and extremely flexible delivery capability. This objective competes to a certain extent with the inventory target, but is weighted higher by management in the long term.

AlzChem will continue to push ahead with its growth projects during the period under review. These include:

- the capacity expansion of the NITRALZ® production
- the continuous renewal of the distribution network structure of AlzChem Netz GmbH,
- the investment in emission reduction within the NCN "Verbund Production" and
- the modernization of guanidinium nitrate capacities at the Schalchen site.

Based on the assumption of slightly rising to sharply rising revenues and thus also a positive business development, and taking into account the dividend payment of EUR 7.632 million planned for May 2020 (calendar year 2019: EUR 9.159 million), the Management Board expects a slight increase in the equity ratio through the consolidated net income. A conservative interest rate was used as the basis for planning pension provisions. Any further reductions in the discount rate would have a one-to-one negative impact on the projected key figures equity ratio and debt ratio.

On the basis of reduced investment activity in 2020, strict cash management, optimization projects initiated, stable margin development and scheduled loan repayments, the Management Board expects debt and debt ratio to remain stable in 2020. The short-, medium- and long-term financing of the AlzChem Group is stably secured.

With regard to the non-financial performance indicators (see 3.2.3.4.2.)

- sustainable customer loyalty,
- training,
- management systems and
- environment and energy,

AlzChem is also optimistic that the forecasts will be achieved.

The company is striving to maintain customer loyalty at the level of previous years and, if possible, even intensify it in selected business areas. One success factor of the AlzChem business model is proximity to the customer. This creates the opportunity to respond quickly to customer inquiries and problems.

In the area of training, the number of trainees is being maintained, but the percentage figure may fall slightly due to the increase in the workforce.

All management systems and certificates will continue to be maintained. AlzChem is striving to optimize the key figures for environment and energy for five main reasons, which generally means a reduction:

- reduction of the impact on the environment,
- reduction of expenses for waste disposal,
- conservation of resources,
- orientation of the production facilities towards future-proof and sustainable processes,
- compliance with national and international regulations.

In this context, a large number of individual measures are currently being implemented, so that we continue to assume that the targets set will be achieved.

The forecasts are based on unchanged regulatory assumptions, such as the continuation of the Renewable Energy Sources Act (EEG), sec. 19 para. 2 StromNEV, electricity price compensation or product approvals. It also contains forward-looking statements based on current management estimates and currently available information. Such statements are subject to risks and uncertainties that are beyond AlzChem's ability to control or estimate precisely, such as those relating to future market and economic conditions, the behavior of other market participants, the successful integration of potential new acquisitions and the realization of expected synergy effects as well as governmental measures. If any of these or other uncertainties occur, or if the assumptions on which these statements are based prove incorrect, actual results may differ materially from those expressed or implied by such statements.

In summary, it can be stated that the AlzChem Group, with its broad positioning and solid financial basis, is well equipped for challenging phases. We will continue to attach great importance to this in the future.

## 7. INTERNAL CONTROL SYSTEM RELATED TO THE ACCOUNTING PROCESS (REPORT IN ACCORDANCE WITH SEC. 315 PARA. 4 HGB)

The management of AlzChem Group AG and its consolidated subsidiaries is responsible for the establishment, application and further development of an appropriate internal control system related to the accounting process. Our accounting-related internal control system is supervised by our Chief Financial Officer. It is intended to provide reasonable assurance that the preparation of the consolidated financial statements is in accordance with International Financial Reporting Standards (IFRS), that the preparation of the annual financial statements of AlzChem Group AG is in accordance with the German Commercial Code and that thus external financial reporting is reliable. In addition, it must be ensured that the combined management report as a whole provides a suitable view of the company's and Group's position, complies with German legal requirements and suitably presents the opportunities and risks of future development. Furthermore, precautions and measures must be taken to enable the preparation of a combined management report in accordance with the applicable German legal provisions and to provide sufficient and suitable evidence for the statements in the combined management report.

The purpose of the accounting-related internal control system is to ensure that accounting is consistent and in accordance with legal requirements, generally accepted accounting principles and internal guidelines. The accounting process itself includes those operational processes that provide the cash flow for financial reporting, the process of preparing the annual financial statements and consolidated financial statements, and the sources of information and processes from which the material disclosures in the Consolidated Financial Statements are derived.

To ensure proper and consistent accounting, the basic principles of separation of functions, dual control and IT access restrictions apply to avoid unauthorized access to accounting-related content. The reporting to the central finance department is based on a standardized reporting tool implemented throughout the Group. Other control measures

that cover risks in the main processes and thus ensure reliable accounting and reporting are usually designed decentralized in the specialist departments.

The information flow of all production companies included in the consolidated financial statements are located in an IT technical SAP environment with a uniform system configuration and are therefore subject to uniform chart of accounts, account assignment specifications, processes and process controls. The distribution companies work with ERP solutions adapted to the size of the company. AlzChem LLC was also connected to SAP in the fiscal year 2019.

Control of the (Group) accounting process is managed within the controlling/accounting department of AlzChem Trostberg GmbH. An essential element of the internal control system in relation to the (Group) accounting process is a practiced Group-wide accounting procedure, which is continuously questioned in the course of the monthly reporting by employees in the financial controlling and general accounting departments. Group reporting is based on a monthly Excel consolidation tool, which contains comprehensive checking and validation routines. For special areas of accounting, for example, pension assessments to determine the relevant pension provisions (IAS 19), measurement of financial instruments and disclosures in the notes (IFRS 9, IFRS 7, IFRS 13, IFRS 15, IFRS 16) and sharebased payment accounting (IFRS 2) rely on external experts.

In addition, there are binding procedural instructions in the German companies which have a concrete effect on the accounting, e.g. procedure in purchasing, disposal of fixed assets and settlement of prepayment. In particular, the "four-eye principle" is ensured via a standardized SAP workflow (XFlow) and a system-based signature policy. Accounting and controlling data are only accessible to a restricted or defined group of persons with the help of an SAP access concept.

Accounting-related information is continuously exchanged with the Head of Controlling, Accounting and Compliance and communicated to the Chief Financial Officer in regular meetings.

In addition to the annual and consolidated financial statements, the Chairman of the Supervisory Board deals with the members of the Management Board on a regular basis with the financial ratios of the Group. Regarding the foreign companies, reports are handed over to the responsible management on a monthly basis and Board meetings are held.

## 8. REPORT PURSUANT TO SEC. 289A PARA. 1 AND SEC. 315A PARA. 1 HGB

Unless stated otherwise, the following information applies to the entire reporting year (fiscal year 2019) and, in particular, to the balance sheet date.

### 8.1. COMPOSITION OF THE SUBSCRIBED CAPITAL

The subscribed capital represents the nominal capital of the parent company. The capital reserves include all amounts of equity that have been externally transferred to the company and that are not subscribed capital. Minority interests in the company's equity are reported as non-controlling interests. The subscribed capital of AlzChem Group AG in the amount of EUR 101,763,350 consists of 10,176,335 no-par value bearer shares at the balance sheet date. After the implementation of the reverse split resolved by the Annual General Meeting 2019, the notional share in the share capital per share amounts to EUR 10.00. There are no different classes of shares. The company does not hold any treasury shares. The company has not issued any shares with special rights. The same rights and obligations are associated with all shares.

Company	Subscribed capital 12/31/2019
AlzChem Group AG, Trostberg, Germany	EUR 101,763 thousand
AlzChem Trostberg GmbH, Trostberg, Germany	EUR 11,000 thousand
NIGU Chemie GmbH, Waldkraiburg, Germany	EUR 1,410 thousand
AlzChem International GmbH, Trostberg, Germany	EUR 1,000 thousand
AlzChem Stahltechnik GmbH, Trostberg, Germany	EUR 25 thousand
AlzChem Nutrition GmbH, Trostberg, Germany	EUR 25 thousand
AlzChem Netz GmbH, Trostberg, Germany	EUR 300 thousand
AlzChem LLC, Atlanta, USA	USD 0 thousand
AlzChem Shanghai Co. Ltd., Shanghai, China	CNY 3.670 thousand
Nordic Carbide AB, Sundsvall, Sweden	SEK 50 thousand
Edelife Distributing LLC, Atlanta, USA	USD 25 thousand

## 8.2. RESTRICTIONS ON VOTING RIGHTS OR ON THE TRANSFER OF SHARES

Each share grants one vote at the Annual General Meeting. Restrictions on the voting rights of the shares may arise in particular from the provisions of the German Stock Corporation Act (AktG). For example, under certain conditions, shareholders are subject to a voting ban pursuant to Section 136 AktG. In addition, violations of the duty to notify pursuant to sec. 33 of the German Securities Trading Act (WpHG) may result in at least partially non-existent rights under shares, including voting rights, in accordance with sec. 44 WpHG. Contractual restrictions affecting voting rights from the shares are not known to the Management Board.

The articles of association of AlzChem Group AG do not contain any restrictions on the transfer of shares.

## 8.3. DIRECT OR INDIRECT SHAREHOLDINGS IN CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS

The following direct and indirect participations in the capital of AlzChem Group AG, which exceed 10% of the voting rights, have been notified to the company by the shareholders in accordance with secs. 33 and 34 WpHG or otherwise:

The voting rights including mutual attributions of the following shareholder and the following company each exceed 10% and amount to a total of 37.6%:

- Prof. Dr. Dr. Peter Löw
- LIVIA Corporate Development SE

The voting rights including mutual attributions of the following shareholder and the following companies each exceed 10% and amount to a total of 20.4%:

- Dr. Martin Vorderwülbecke
- High Definition Industries GmbH
- HDI Vier CE GmbH

The voting rights including mutual attributions of the following shareholder and the following company each exceed 10% and amount to a total of 15.8%:

- Markus Zöllner
- four two na GmbH

## 8.4. HOLDERS OF SHARES WITH SPECIAL RIGHTS

There are no shares in the company that grant their holders special rights, in particular powers of control over the company, in comparison to the other shareholders.

## 8.5. TYPE OF VOTING RIGHT CONTROL FOR EMPLOYEE SHARES IN CAPITAL

The Management Board is not aware of employee shares in the capital of the company. Employees who hold shares in the company's capital exercise their control rights in the same way as other shareholders, in accordance with statutory provisions and the articles of association.

## 8.6. LEGAL PROVISIONS AND REGULATIONS OF THE ARTICLES OF ASSOCIATION ON APPOINTMENT AND DISMISSAL OF THE MEMBERS OF THE MANAGEMENT BOARD AND ON THE AMENDMENT OF THE ARTICLES OF ASSOCIATION

The requirements for the appointment and dismissal of members of the Management Board and for amendments to the articles of association are based on the provisions of the articles of association and the German Stock Corporation Act. According to sec. 6.1 of the articles of association of AlzChem Group AG, the Management Board consists of one or more persons. The Supervisory Board appoints the members of the Management Board and determines their number. In accordance with sec. 84 para. 1 AktG, the members of the Management Board are appointed for a maximum of five years. Reappointments are permitted. The Supervisory Board appoints the members of the Management Board by resolution with a simple majority of the votes cast. In accordance with sec. 6.1 of the articles of association and sec. 84 AktG, the Supervisory Board may appoint a Chairman of the Management Board and a Deputy Chairman of the Management Board. If a required member of the Management Board is missing, the court must appoint the member in urgent cases at the request of one of the parties involved in accordance with sec. 85 AktG.

In accordance with sec. 84 para. 3 AktG, the Supervisory Board may revoke the appointment of a Management Board member and the appointment of the Chairman of the Management Board for good cause. The revocation is made by resolution of the Supervisory Board with a simple majority of the votes cast.

Changes to the articles of association require a resolution of the Annual General Meeting. Unless the articles of association provide for a different majority, resolutions of the Annual General Meeting on changes to the articles of association require a majority of at least three-quarters of the share capital represented at the time the resolution is passed, in accordance with sec. 179 para. 2 AktG.

Sec. 21 para. 1 of the company's articles of association stipulates that resolutions are generally adopted by a simple majority of the votes cast and, if a capital majority is required, by a simple majority of the share capital represented when the resolution is adopted, unless a larger majority is required by mandatory legal provisions or the articles of association.

In accordance with sec. 16 of the articles of association of AlzChem Group AG, the Supervisory Board is authorized to resolve changes to the articles of association that affect only their wording. In accordance with sec. 11 para. 3 of the articles of association, the resolutions of the Supervisory Board are adopted by a majority of the votes cast, unless mandatory legal provisions or the articles of association require otherwise. If a vote results in a tie, the Chairman of the Supervisory Board is entitled to a second vote in a second ballot, which may be ordered by the Chairman of the Supervisory Board.

## 8.7. AUTHORIZATIONS OF THE MANAGEMENT BOARD TO ISSUE AND BUY BACK SHARES IN ACCORDANCE WITH SEC. 315A PARA. 1 NO. 7 HGB

### 8.7.1. AUTHORIZED CAPITAL

According to sec. 5 para. 5 of the company's articles of association, the Management Board is authorized until July 31, 2022, to increase the capital of AlzChem Group AG with the approval of the Supervisory Board once or several times by a total of up to EUR 10,063,333.00 (written: ten million sixty-three thousand three hundred-thirty-three euros) by issuing up to 10,063,333 new no-par-value bearer shares against cash and/or non-cash contributions (Authorized Capital 2017). In principle, the shareholders must be granted a subscription right. The statutory subscription right may also be granted in such a way that the new shares are taken over by a credit institution appointed by the Management Board or a consortium of credit institutions with the obligation to offer them to the shareholders of the company for subscription.

The Management Board is authorized, with the consent of the Supervisory Board, to exclude the statutory subscription rights of shareholders in the following cases:

- in the case of a capital increase against non-cash contributions, in particular for the acquisition of companies, parts of companies or participations in companies;
- in the case of capital increases against cash contributions, if the issue price of the new shares issued under exclusion of subscription rights in accordance with sec. 186 para. 3.4 AktG is not significantly lower than the stock exchange price of the already listed shares of the same class and equipment and that to the ones under exclusion of the

subscription right pursuant to sec. 186 para. 3.4 AktG, no more than 10% of the share capital existing at the time this authorization takes effect and the capital stock existing at the time this authorization is exercised. Shares which were issued or sold in the direct or corresponding application of sec. 186 para. 3.4 AktG during the term of this authorization up to the time of their exercise are to be offset against this limit of 10% of the share capital;

- to avoid fractional amounts;
- to issue shares within the framework of share participation or other share-based programs against cash and/or non-cash contributions to members of the company's Management Board, members of the representative body of a company affiliated with the company or to employees of the company or of a company affiliated with the company, whereby the employment relationship or executive body relationship with the company or with a company affiliated with the company must exist at the time of the commitment to issue shares. If shares are to be granted to members of the Management Board of the company, the Supervisory Board of the company shall decide on this alone.

The Management Board is authorized, with the consent of the Supervisory Board, to determine the further details of the capital increase and its implementation, in particular the content of the share rights and the conditions of the share issue, including a profit sharing deviating from sec. 60 para. 2 AktG. The Supervisory Board is authorized to adjust the articles of association of the company accordingly after full or partial utilization or the expiration of the authorized capital, in particular with regard to the amount of the share capital and the number of existing no-par-value shares.

The above presentation reflects the content adopted by the Annual General Meeting 2017 and incorporated into the articles of association of the company. However, the following should be noted with regard to the number of shares available for a capital increase from Authorized Capital 2017: the Authorized Capital 2017 has not been formally adjusted in the context of the reverse split of shares at a ratio of 10 to 1 as resolved by the Annual General Meeting 2019. The number of shares to be issued under this capital has, however, also been reduced in the ratio of 10 to 1 due to the lack of the continued existence of the previous shares, each of which has a notional

interest of EUR 1 in the share capital, and therefore - with an unchanged maximum increase amount of EUR 10,063,333.00 - now actually amounts to only 1,006,333 shares.

### 8.7.2. CONTINGENT CAPITAL

The Management Board was not granted any rights by the Annual General Meeting with regard to a contingent capital increase. Nor does the company maintain any stock option programs or similar securities-based incentive systems that would require such capital.

### 8.7.3. AUTHORIZATION TO PURCHASE AND USE TREASURY SHARES

In order to give AlzChem Group AG the opportunity to acquire and re-sell treasury shares, the Annual General Meeting has authorized AlzChem Group AG in accordance with sec. 71 para 1.8 AktG to purchase treasury shares until the end of July 31, 2022, in a volume of up to 10% of the existing share capital at the time of the resolution. The shares acquired on the basis of this authorization, together with other shares of the company which AlzChem Group AG acquired and still holds at the time of the acquisition or which are attributable to it pursuant to secs. 71d or 71e AktG, may at no time exceed 10% of the share capital. The authorization may not be used by AlzChem Group AG for the purpose of trading in treasury shares. The authorization may be exploited in whole or in part, on one or more occasions by AlzChem Group AG or by dependent or majority-owned companies of AlzChem Group AG or by third parties acting on behalf of AlzChem Group AG or dependent or majority-owned AlzChem Group AG companies act. At the discretion of the Management Board, the purchase can be made via the stock exchange or by means of a public purchase offer addressed to all shareholders.

In the case of acquisition via the stock exchange, the purchase price (excluding incidental acquisition costs) may not be more than 10% higher or lower than the price of the share in Xetra trading (or in a comparable successor system) determined by the opening auction on the trading day.

In the case of acquisition via a public purchase offer, the bid price offered or the limits on the purchase price range per share (excluding incidental acquisition costs) may not exceed

the closing price in Xetra trading (or a comparable successor system) on the third exchange trading day prior to the public announcement of the offer by more than 10% above or below. If, after publication of the public offer, significant deviations from the relevant price occur, the offer can be adjusted. In this case, the price on the third exchange trading day before the public announcement of any adjustment will be switched off. The volume of the offer can be limited. If the total subscription of the offer exceeds the fixed volume, the acceptance must take place according to quota. A preferential acceptance of small numbers up to 100 tendered shares per shareholder can be provided for.

The Management Board is authorized to use shares of the company acquired on the basis of this authorization for all legal purposes. In particular, the Management Board is authorized to do the following:

(1) The Management Board is authorized, with the consent of the Supervisory Board, to sell treasury shares acquired on the basis of this authorization via the stock exchange or through offers to all shareholders. When selling via the stock exchange there is no subscription right of the shareholders. In the event of a sale by public offer, the Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders for fractional amounts.

(2) The Management Board is further authorized, with the approval of the Supervisory Board, to sell treasury shares acquired on the basis of this authorization in ways other than via the stock exchange or through offers to all shareholders if the acquired treasury shares are sold at a price, which is not materially lower than the stock exchange price of shares of the company with the same equipment at the time of the sale. The subscription right of the shareholders is excluded. This authorization is limited to a total of 10% of the share capital existing at the time of the resolution of the Annual General Meeting or, if this is lower, of the share capital of the company existing at the time this authorization is exercised. Shares issued or sold by direct or indirect application of

sec. 186 para. 3.4 AktG during the term of this authorization are to be counted towards this limit of 10% of the share capital.

(3) The Management Board is further authorized, with the approval of the Supervisory Board, to use treasury shares acquired on the basis of this authorization as (partial) consideration as part of mergers or for the acquisition of companies, interests in companies, parts of companies or other assets.

(4) The Management Board is further authorized, with the approval of the Supervisory Board, to offer or transfer treasury shares of the company acquired on the basis of this authorization to employees of the company or its affiliates. The Supervisory Board is authorized to offer or transfer treasury shares of the company, which were acquired on the basis of this authorization or a previously issued authorization, to members of the Management Board of the company for acquisition.

(5) The Management Board is further authorized, with the approval of the Supervisory Board, to collect treasury shares of the company acquired on the basis of this authorization, without the cancellation or its execution requiring a further resolution by the Annual General Meeting. The authorization to collect may be exercised in whole or in part. The confiscation leads to capital reduction. By way of derogation, the Management Board may determine that the share capital is not reduced, but that the share of the remaining shareholders in the share capital increases in accordance with sec. 8 para. 3 AktG. In this case, the Supervisory Board is authorized to adjust the number of shares in the articles of association.

The subscription right of the shareholders is excluded in the execution of the measures under (2) to (5).

All aforementioned authorizations may be exercised once or several times, in whole or in part, individually or jointly.

## 8.8. SIGNIFICANT AGREEMENTS UNDER THE CONDITION OF A CHANGE OF CONTROL

In individual loan agreements, there are standard market regulations which link legal consequences, such as the right to extraordinary termination, to a majority acquisition or control of the company.

## 8.9. COMPENSATION AGREEMENTS IN THE EVENT OF A TAKEOVER BID

No special arrangements have been made with members of the Management Board or other employees in the event of a takeover bid, i.e. for the situation where a third party gains control of the company within the meaning of sec. 29 para. 2 WpÜG.

## 8.10. BASIC PRINCIPLES OF THE REMUNERATION SYSTEM IN ACCORDANCE WITH SEC. 315A PARA. 2 HGB (IN THE VERSION APPLICABLE UNTIL DECEMBER 31, 2019) (REMUNERATION REPORT)

As part of the combined management report, the remuneration report explains the basic principles of the remuneration system for the Management Board and the Supervisory Board of AlzChem Group AG and the remuneration of the individual members of these bodies in accordance with legal requirements and the recommendations of the German Corporate Governance Code. Transparent and comprehensible reporting on this represents a key element of good corporate governance for the company.

The remuneration system is designed to promote sustainable corporate development. The remuneration structures are based on the principles of appropriateness and performance orientation. These basic principles apply not only to the remuneration of the Management Board and Supervisory Board, but also to the remuneration structures of the company's employees.

## 8.10.1. REMUNERATION OF THE MANAGEMENT BOARD

### Management Board members; remuneration principles

In the fiscal year 2019, the Management Board of AlzChem Group AG consisted of Ulli Seibel (CEO until June 30, 2019, CPO from July 1 to December 31, 2019), Andreas Niedermaier (CFO until June 30, 2019, CEO since July 1, 2019), Klaus Englmaier (COO) and Dr. Georg Weichselbaumer (CSO since July 1, 2019). The remuneration of the Management Board members is based on the size, complexity and economic situation of the company and on the performance of the Management Board. Management Board compensation at comparable companies was also included as a benchmark. As of the balance sheet date, the agreements with members of the Management Board regarding a possible premature termination of their Management Board activities fully complied with the requirements of the German Corporate Governance Code (in the version of February 7, 2017, as amended on that date).

### Change of control

As of the balance sheet date, there were no agreements with the members of the Management Board in the event of a change of control following a takeover bid.

### Structure of the remuneration of the Management Board

In the year under review, the members of the Management Board concluded employment contracts with the company that are limited in time and expire automatically, i.e. without the need for termination, at the end of the fiscal years 2019 (Seibel), 2022 (Englmaier, Dr. Weichselbaumer) and 2023 (Niedermaier). The remuneration of the Management Board regulated in these contracts of employment is composed as follows:

- fixed remuneration
- annual variable remuneration ("bonus" or "short-term incentive" or "STI")
- share-based, long-term oriented remuneration program ("long-term incentive" or "LTI")
- one-time special bonus
- remuneration in kind and other additional benefits
- company pension scheme

The fixed remuneration is a fixed payment related to the full year, which is paid in equal instalments. It is reviewed by the Supervisory Board at regular intervals and adjusted if necessary.

The annual variable remuneration is based on the degree of target achievement for previously defined objectives. The employment contract defines the targets relating to the Group's key financial figures (EBITDA) in the fiscal year. At the end of the fiscal year, the degree of target achievement and thus the bonus to be paid is determined. If the bonus exceeds a contractually agreed maximum amount, the corresponding amount is capped; the bonus exceeding the maximum amount is forfeited.

As a long-term incentive, Management Board members receive a certain number of stock appreciation rights (SAR) with a multi-year assessment basis. A SAR does not entitle the holder to transfer shares, but to payment of a bonus (LTI) if the average closing price of the AlzChem Group AG share in the last 30 trading days before the respective exercise date (plus dividends granted up to that date) is higher than the average closing price of the AlzChem Group AG share in the 60 trading days before January 1, 2020 (whereby this "base price" increases by 3 percentage points each year from January 1, 2020). In the two (or three) exercise periods in January 2023, 2024 (or 2025), depending on the Management Board member, a certain portion of the SAR can be exercised, i.e. converted into a cash amount to be paid out as a bonus within six weeks of the end of the respective exercise period, provided the relevant conditions are met. SAR not redeemed at the end of the last exercise period expire. The entitlement to receive SAR is linked to the acquisition of a certain number of AlzChem shares by the end of the fiscal year 2019 ("Treasury Shares 1"). If the bonus exceeds a contractually agreed maximum amount, the bonus is capped at this amount; the bonus in excess of the maximum amount is forfeited. In addition, all Management Board members will receive a one-time special bonus paid in cash for services rendered in the

fiscal year 2019. The entitlement to receive the special bonus is also linked to the acquisition of Treasury Shares 1 by the Management Board members by the end of the fiscal year 2019.

In addition, each member of the Management Board is obliged to acquire a further tranche of shares in the company („Treasury Shares 2") by the end of the fiscal year. If the Treasury Shares 1 or 2 are sold by the Management Board member before the end of the last (= third) exercise period of the SAR, the company is entitled to demand a compensation payment from the Management Board member depending on the number of shares sold.

Remuneration in kind and other additional compensation (fringe benefits) include the provision of a company car in the form of a payment in kind or cash, a mobile phone, a pecuniary loss liability insurance policy (D&O), an accident insurance policy and, in individual cases, compensation payments for savings made by the company due to a change in the social security status of the Management Board member.

The expenses for the company pension scheme include the allocation to provisions for direct commitments ('service costs' in accordance with IAS 19) and current employer contributions to a reinsured provident fund.

#### [Commitments to Management Board members in the event of termination of their activities](#)

The employment contracts expressly state that they do not give rise to any entitlement to severance pay. Any severance payment agreements in the event of premature termination of the employment contract are limited to two annual fixed salaries, but at most to the remuneration for the remaining term of the employment contract. No severance payment is payable in the event that the company terminates the employment contract for good cause.

### Maximum remuneration

If the total remuneration paid to a Management Board member (fixed remuneration, STI, LTI, benefits in kind, additional benefits, company pension scheme) exceeds a contractually agreed maximum amount during the agreed term, a cap is applied in the corresponding amount; the portion of the remuneration exceeding the maximum amount is forfeited.

### New employment contracts concluded during the fiscal year

The structure of the Management Board remuneration described above corresponds to the employment contracts concluded by the members of the Management Board with the company in mid-2019. These have been in effect for Mr. Niedermaier and Dr. Weichselbaumer since July 1, 2019 and for Mr. Englmaier since January 1, 2020 respectively. The employment contracts of the aforementioned gentlemen - as well as that of Mr. Seibel, who did not require a new

employment contract due to his departure at the end of the fiscal year - had a similar compensation structure with the following exceptions:

- The SAR could only be exercised on a single exercise date (January 1, 2020) after expiry of the waiting period.
- The calculation of the bonus (LTI) resulting from the exercise of the SAR was based on a slightly modified formula.
- The Management Board members were not obliged to purchase treasury shares.
- A special bonus was not promised.

### Amount of total remuneration

In accordance with the model tables of the German Corporate Governance Code<sup>24</sup>, we report as follows on the benefits granted and amounts received by the members of the Management Board in the year under review:

Granted benefits <sup>25</sup> in EUR thousand	Ulli Seibel CEO until 06/30/2019, CPO from 07/01/2019 until 12/31/2019					Andreas Niedermaier CFO until 06/30/2019, CEO since 07/01/2019				
	10/02/2017 / 12/31/2019			10/02/2017		10/02/2017				
Entry/exit date	2017	2018	2019	Min	Max	2017	2018	2019	Min	Max
Reporting year										
Fixed compensation	280	280	280			220	220	260		
Fringe benefits	12	12	12			20	20	20		
$\Sigma$	292	292	292			240	240	280		
One year variable compensation	356	395	395		800	285	316	306		700
Special bonus treasury shares								250		
Multi-year variable compensation (total)	11	2	0		1,300	8	2	31		2,000
Plan description (contracts until 12/31/2019)	Long Term Incentive until 03/31/2020									
Plan description (contracts from 07/01/2019)	Long Term Incentive until 01/31/2025									
$\Sigma$	659	689	687			533	558	867		
Benefit expenses	71	56	56			42	42	48		
<b>Total remuneration</b>	<b>730</b>	<b>745</b>	<b>743</b>			<b>575</b>	<b>600</b>	<b>915</b>		

<sup>24</sup> German Corporate Governance Code (version dated February 7, 2017) Annexes Model Tables 1 and 2 for section 4.2.5 paragraph 3 (1st and 2nd indent)

<sup>25</sup> Recognized expenses

**Granted benefits<sup>26</sup>  
in EUR thousand**

Entry/exit date	Klaus Englmaier, COO					Dr. Georg Weichselbaumer, CSO				
				10/02/2017					07/01/2019	
Reporting year	2017	2018	2019	Min	Max	2017	2018	2019	Min	Max
Fixed compensation	180	180	180			-	-	115		
Fringe benefits	15	15	13			-	-	7		
<b>Σ</b>	<b>195</b>	<b>195</b>	<b>193</b>			<b>-</b>	<b>-</b>	<b>122</b>		
One year variable compensation	160	178	178	0	360	-	-	66		300
Special bonus treasury shares			175			-	-	175		
Multi-year variable compensation (total)	6	1	23	0	1,000	-	-	23		1,000
Plan description (contracts until 12/31/2019)	Long Term Incentive until 03/31/2020									
Plan description (contracts from 07/01/2019)						Long Term Incentive until 01/31/2024				
<b>Σ</b>	<b>362</b>	<b>374</b>	<b>569</b>			<b>-</b>	<b>-</b>	<b>386</b>		
Benefit expenses	35	33	34			-	-	15		
<b>Total remuneration</b>	<b>397</b>	<b>407</b>	<b>603</b>			<b>-</b>	<b>-</b>	<b>401</b>		

Inflow <sup>27</sup> in EUR thousand	Ulli Seibel CEO until 06/30/2019, CPO from 07/01/2019 until 12/31/2019			Andreas Niedermaier CFO until 06/30/2019, CEO since 07/01/2019		
	10/02/2017 / 12/31/2019			10/02/2017		
Reporting year	2017	2018	2019	2017	2018	2019
Fixed compensation	280	280	280	220	220	260
Fringe benefits	12	12	12	20	20	20
<b>Σ</b>	<b>292</b>	<b>292</b>	<b>292</b>	<b>240</b>	<b>240</b>	<b>280</b>
One-year variable remuneration	407	365	394	479	292	315
Multi-year variable remuneration	0	0	0	0	0	0
LTI until 03/31/2020	0	0	0	0	0	0
LTI until 01/31/2025 and 2024	0	0	0	0	0	0
<b>Σ</b>	<b>699</b>	<b>657</b>	<b>686</b>	<b>719</b>	<b>532</b>	<b>595</b>
Benefit expenses	71	56	56	42	42	48
<b>Total remuneration</b>	<b>770</b>	<b>713</b>	<b>742</b>	<b>761</b>	<b>574</b>	<b>643</b>

Inflow <sup>28</sup> in EUR thousand	Klaus Englmaier, COO			Dr. Georg Weichselbaumer, CSO		
	10/02/2017			07/01/2019		
Reporting year	2017	2018	2019	2017	2018	2019
Fixed compensation	180	180	180	-	-	115
Fringe benefits	15	15	13	-	-	7
<b>Σ</b>	<b>195</b>	<b>195</b>	<b>193</b>	<b>-</b>	<b>-</b>	<b>122</b>
One-year variable remuneration	172	164	177	-	-	0
Multi-year variable remuneration	0	0	0	-	-	0
LTI until 03/31/2020	0	0	0	-	-	0
LTI until 01/31/2025 and 2024	0	0	0	-	-	0
<b>Σ</b>	<b>368</b>	<b>359</b>	<b>370</b>	<b>-</b>	<b>-</b>	<b>122</b>
Benefit expenses	35	33	34	-	-	15
<b>Total remuneration</b>	<b>402</b>	<b>392</b>	<b>404</b>	<b>-</b>	<b>-</b>	<b>137</b>

26 Recognized expenses

27 Amounts paid

28 Amounts paid

### Pension commitments

The pension claims from direct commitments as of December 31, 2019 amount to EUR 0 thousand for Ulli Seibel (December 31, 2018: EUR 0 thousand), EUR 349 thousand for Andreas Niedermaier (December 31, 2018: EUR 271 thousand), EUR 893 thousand for Klaus Englmaier (December 31, 2018: EUR 744 thousand) and EUR 0 thousand for Dr. Georg Weichselbaumer (December 31, 2018: EUR 0 thousand).

### Other

The members of the Management Board do not receive loans or advances from the company.

### 8.10.2. REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board of AlzChem Group AG is regulated as follows in sec. 14 of its articles of association: each member of the Supervisory Board receives a fixed remuneration of EUR 20,000 for each full fiscal year of membership of the Supervisory Board, payable after the end of the fiscal year, with the Chairman receiving twice this amount and the Deputy Chairman 1.5 times this amount. These contributions increase by 10% for each membership in

a committee of the Supervisory Board. However, this requires that the respective committee has met at least twice during the fiscal year. The members are also reimbursed for all expenses and reimbursed for any value added tax payable on their remuneration and expenses.

Members of the Supervisory Board who are also members of the Supervisory Board of another company of the AlzChem Group must have the remuneration they receive in their capacity as members of the Supervisory Board of AlzChem Group AG offset against any Supervisory Board remuneration to which they are entitled in the other company.

Members of the Supervisory Board who have only belonged to the Supervisory Board for part of the fiscal year or who have only held the office of Chairman or Deputy Chairman of the Supervisory Board for part of the fiscal year shall receive pro rata remuneration rounded up to full months.

Markus Zöllner (as Chairman), Steve Röper, Prof. Dr. Martina Heigl-Murauer and Dr. Caspar Freiherr von Schnurbein were appointed to the Supervisory Boards of both AlzChem Group AG and - together with two employee representatives - AlzChem Trostberg GmbH in the fiscal year 2019. In this capacity, they received the following remuneration:

Remuneration of Supervisory Board in EUR thousand	2017	SFY 2018/I	SFY 2018/II	2018	2019
Markus Zöllner, Chairman of the Supervisory Board	40	22	22	44	44
Steve Röper	20	10	10	20	20
Dr. Caspar Freiherr von Schnurbein	20	16	6	22	22
Prof. Dr. Martina Heigl-Murauer	20	10	12	22	22
<b>Σ Remuneration of the Supervisory Board</b>	<b>100</b>	<b>58</b>	<b>50</b>	<b>108</b>	<b>108</b>

The members of the Supervisory Board do not receive loans or advances from the company.

## 9. COMBINED NON-FINANCIAL GROUP STATEMENT (SUSTAINABILITY REPORT), SECS. 315B PARA. 1, 315C IN CONNECTION WITH SECTION 289C HGB

The aim of the report is to inform the company's stakeholders, such as customers, employees, business partners, local residents and the capital market, about the company's sustainability performance, as required by secs. 315b and 315c in connection with sec. 289c HGB.

For the preparation of the report, we have followed the Chemie<sup>3</sup> <sup>29</sup> reporting guide for SMEs. The contents and structure of the report are based on the dimensions of sustainability defined by us as well as the legal requirements: supply chain, environment, employees, social matters, compliance, in particular respect for human rights, fight against corruption and bribery, and safety.

### AlzChem – more than an employer

Our behavioral principles of reliability, trust, fairness, open communication, responsibility and quality are the benchmark for cooperation in the company, but also for contact with customers, suppliers and the public. Working at the AlzChem Group means contributing to the success of a medium-sized company with potential. Working at the AlzChem Group also means being part of a highly motivated workforce that is proud of the company's tradition and eager to take the most forward-looking steps.

We are a responsible and profitable chemical company in the Bavarian region. The well-being of our employees, the further development of our products and the strengthening of the Upper Bavaria region are the focus of our actions – goals that we also pursue in the areas of the environment, safety, health and quality. We face this important challenge.

As a founding member of the first and second Bavarian Environmental Pact<sup>30</sup>, we feel committed to the motto "Sustainable Business in the 21st Century". The core idea of the Bavarian Environmental Pact is to bundle the efforts of the state and industry in order to achieve joint progress towards sustainable, environmentally compatible development.

Significant Group companies have been EMAS<sup>31</sup>-registered since 1997 and prepare an environmental statement every year. The present environmental statement 2018 presents the AlzChem Group and its integrated management system, publishes the key figures of the Trostberg, Schalchen, Hart and Waldkraiburg sites and presents the current environmental, safety and quality program.

### 9.1. BUSINESS MODEL OF THE ALZCHEM GROUP, SEC. 315C HGB IN CONNECTION WITH SEC. 289C PARA. 1 HGB

For a detailed overview of the AlzChem Group's business model, please refer to the further information in the management report.

<sup>29</sup> Chemie<sup>3</sup> is the initiative of the German chemical industry. The practice-oriented guideline for sustainability reporting is aimed at medium-sized companies that want to establish or expand their sustainability reporting. The guide and other tools are available for download in the members' area of the Chemie<sup>3</sup> website ([www.chemiehoch3.de](http://www.chemiehoch3.de))

<sup>30</sup> The Bavarian Environmental Pact is an agreement between the Bavarian Government and the Bavarian business community. It is formed from the shared conviction of the state and business that natural resources can be better protected with the help of voluntary and reliable cooperation between state and industry than with laws and regulations.

<sup>31</sup> The Eco-Management and Audit Scheme (EMAS) is an instrument developed by the European Communities in 1993 for companies seeking to improve their environmental performance. The current legal basis is Regulation (EC) 1221/2009. This amendment came into effect on January 11, 2010. The structure of an EMS and the processes have also been in accordance with ISO 14001 since 2001.

## 9.2. KEY FIGURES OF THE GROUP

Area	Key figure	2017	2018	2019
Strategy and growth	Sales in EUR million	353,9	375,2	376,1
	EBITDA in EUR million	45.7	49.3	50.1
	EBITDA margin	12.9%	13.1%	13.3%
Governance and compliance	Share of women in the Supervisory Board	25%	25%	25%
	Share of women in the Management Board	0%	0%	0%
Employees	Fluctuation rate <sup>32</sup>	3.2%	3.7%	3.5%
	Average length of service in years	19.4	19.0	18.4
	Number of training days per employee	1.46	1.21	1.42
	Share of women in management positions <sup>33</sup>	8%	10%	11%
	Training ratio <sup>34</sup>	8.6%	9.3%	9.6%
Value chain and products	R&D expenses in EUR million	9.0	8.7	9.3
	R&D ratio <sup>35</sup>	2.5%	2.3%	2.5%
Environment <sup>36</sup>	Production volume/production output in 1,000 tons <sup>37</sup>	570	594	561
	Electrical energy consumption in MWh/a <sup>38</sup>	669,007	677,618	676,379
	Fuel consumption in MWh/a	204,164	192,843	183,907
	Heat recovery in MWh/a <sup>39</sup>	17,783	16,841	17,072
	CO <sub>2</sub> emissions in t/a	111,793	109,037	111,676
	CO <sub>2</sub> not emitted in t/a <sup>40</sup>	47,204	49,155	49,167
	Dust emissions in t/a	56	39	29
	Waste water volume (CSB) in kg/a	93,474	94,470	77,391 <sup>41</sup>
	Waste volume in t/a	43,929	41,753	35,082
	thereof dangerous t/a	26,034	29,193	25,307
	Environmental protection expenses in EUR million	17.7	18.6	18.2
Safety	1,000 man ratio <sup>42</sup>	6.2	4.9	7.1
	KSUND key figure <sup>43</sup>	18.1	17.2	15.0

## 9.3. SUSTAINABILITY IN THE COMPANY

With our products, we want to participate in a sustainable future development. We have defined population growth, healthy aging and energy efficiency as sustainable growth drivers to which we want to contribute with our products.

### Healthy aging

The world population, especially in western industrial nations, is constantly aging. The average global life expectancy in 2000 was around 66.4 years. Already in 2016, global life expectancy averaged approx. 72.0 years<sup>44</sup>. Scientists expect life expectancy to rise significantly in the coming years.<sup>45</sup> Medical progress is a key factor in the prevention and treatment of diseases. So-called civilization diseases and age-related diseases are no

32 Calculation of fluctuation rate: departures in the reporting period/average number of employees in the reporting period\*100

33 Only above-tariff area

34 Calculation of training ratio: number of trainees/number of employees on the reporting date\*100

35 Ratio of R&D expenditure to sales

36 Thanks to its highly diversified product range, AlzChem can react flexibly to changes in market demand. Due to the resulting changes in production, the key figures stated in the environmental area may vary considerably from year to year.

37 The information in the sustainability report 2019 may deviate from the key figures in subsequent reports (e.g. environmental statement) under certain circumstances.

38 Concerns all production sites including Sundsvall (Sweden).

39 Concerns only the Trostberg site.

40 Concerns only the German sites.

41 In previous years, waste water from an external company at the Schalchen chemical park was taken into account in the context of infrastructure services. This waste water is not taken into account in 2019.

42 1,000 man ratio – number of reportable accidents at work per 1,000 full-time employees

43 Key figure for safety and accidents with external medical treatment (own employees, employees according to AÜG and contractor employees are taken into account). Calculation: number of external medical treatments\*1 million working hours/total working hours in the period under review

44 WHO homepage: [http://www.who.int/gho/mortality\\_burden\\_disease/life\\_tables/situation\\_trends/en/](http://www.who.int/gho/mortality_burden_disease/life_tables/situation_trends/en/) (February 10, 2020)

45 Lancet Medical Journal homepage: [http://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(16\)32381-9/abstract](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(16)32381-9/abstract) (February 10, 2020)

exceptions, however. At the same time, awareness of health and nutrition is gaining in importance, so older people in particular are increasingly active in sports and consciously paying attention to a healthy diet. With its products, the AlzChem Group wants to support these developments in the pharmaceutical, cosmetics and healthcare sectors.

### Energy efficiency

Energy efficiency and renewable energy are gaining in importance worldwide. This is on the one hand due to legal and regulatory requirements; on the other hand, many technologies are now at a stage where the economic benefit is attractive. Accordingly, the demand for photovoltaic and wind power plants is increasing. Globally installed wind and solar power systems increased from about 130 GW in 2008 to about 1,050 GW in 2018<sup>46</sup>, which corresponds to average annual growth of about 23%. This growth trend is expected to continue in the future. AlzChem sees itself well positioned to participate in this development.

### Population growth

In 1900, around 1.7 billion people lived on our planet. By the year 2000, this figure had increased to more than 6.1 billion. Only 17 years later, in 2017, the world population amounted to around 7.6 billion. The United Nations expects a realistic increase by 2030 to about 8.6 billion people.<sup>47</sup> At the same time, agricultural areas are limited worldwide. Against this background, efficient processes are necessary to provide the growing population with food for the future as well as possible. The AlzChem Group's products meet these requirements and can be used in increasingly optimized agricultural production.

By expanding the production capacity for Creamino®, the growing demand can be met and the product's growth potential fully exploited. The main growth driver in this market is the rapidly growing world population with limited agricultural land, so that greater efficiency in agriculture is becoming increasingly important for supply security. With its considerable potential for reducing greenhouse gas emissions, Creamino® also meets the growing demand for more sustainability in food production. If Creamino® production capacities are fully utilized, the use of Creamino® will enable

savings of approximately 39,750 t CO<sub>2</sub> and approximately 150,000 hectares of farmland. The annual land consumption in Germany, which amounts to approx. 21,000<sup>48</sup> ha, should serve as a benchmark.

## 9.4. SUPPLY CHAIN

### "Verbund Production"

The key feature of the AlzChem Group is its vertical integration along the calcium carbide/calcium cyanamide chain (NCN chain). This means that most of the company's products are based on the same starting materials: lime and coal. AlzChem performs many processing steps itself and is increasingly starting with material refinement. The integrated manufacturing system allows us to collect the carbon monoxide produced during the "Verbund Production" and to use it as starting material for further chemical reactions. This reduces climate-damaging emissions during composite production to the essentials.

### Auditing

Corporate social responsibility (CSR) is increasingly demanded in the global supply chain. For this reason, AlzChem underwent an independent CSR rating in 2018 through the globally active EcoVadis evaluation platform. This evaluation reviewed the company's activities in the areas of environmental protection, working conditions and human rights, fair business practices and sustainable procurement. With 68 out of 100 achievable points, AlzChem is well above the industry average of 42.5 points and is among the top three percent of companies worldwide that have been audited by EcoVadis to date in this industry.

### Purchasing/supplier approval

In the area of purchasing/supplier approval, we ensure that company-wide standards in the procurement of our raw materials are complied with. The procedure for purchasing and for raw material qualification is defined in a procedural instruction and the responsibilities are clearly defined. Suppliers are audited based on specified criteria; the frequency of audits depends on the importance of the raw

46 International Renewable Energy Agency (IRENA): Renewable Capacity Statistics 2019

47 UN forecast on world population development ([https://population.un.org/wpp/Publications/Files/WPP2019\\_Highlights.pdf](https://population.un.org/wpp/Publications/Files/WPP2019_Highlights.pdf))

48 Federal Ministry for the Environment, Nature Conservation and Nuclear Safety: <https://www.bmu.de/themen/nachhaltigkeit-internationales/nachhaltige-entwicklung/strategie-und-umsetzung/reduzierung-des-flaechenverbrauchs/>

material for the supply chain. As a member of the BME<sup>49</sup> Compliance Initiative, we also have committed ourselves to require compliance by all our suppliers with the code of conduct established by this initiative.

### Production

AlzChem's German production sites are located in Trostberg, Schalchen, Hart and Waldkraiburg and are therefore regulated by a very detailed body of legislation, the implementation of which we regularly review together with the local monitoring authorities. An analogous procedure also applies to our Swedish production site Sundsvall.

Safety is one of the highest corporate objectives. A detailed safety assessment during the commissioning of plants or new processes is just as much a part of our philosophy as safe plant operation, which is ensured by a preventive maintenance program and continuous staff training, among other things.

### Product safety

AlzChem aims to comply with all relevant chemical legislation of the EU and the Federal Republic of Germany, so that our products are manufactured and tested in accordance with the provisions of the EU Chemicals Regulation, or REACH for short.

Safety requirements for the use of our products are constantly updated and made available to users in our safety data sheets. We thus take our responsibility seriously and not only assume that all of our suppliers and contractors take the same approach, but also ensure it through checks.

### Quality control

AlzChem has its own testing laboratories. The area is independent of the production. The release of our products is carried out by authorized laboratory managers of the analytical division. The laboratories in Trostberg are also accredited to DIN EN ISO 17025 and GLP certified. We take return samples from all production batches and store them under suitable conditions. The ISO 9001 certified quality management system ensures that customer requirements are systematically identified, evaluated and implemented in order to fully meet them.

Our German locations are certified in accordance with the standards ISO 9001, ISO 14001, EMAS, ISO 50001, ISO 27001 and OHRIS. The latter complies with the requirements of OHSAS 18001/ISO 45001. Our test laboratory in Trostberg is accredited to ISO 17025. The mentioned certificates can be viewed on the homepage<sup>50</sup> of AlzChem Group AG.

### 9.5. ENVIRONMENTAL MATTERS, SEC. 315C HGB IN CONNECTION WITH SEC. 289C PARA. 2 NR. 1 HGB

The AlzChem Group is committed to constantly improving environmental protection. In 2019, environmental protection expenditures amounted to almost EUR 18.2 million.

The current environmental program with the defined goals and associated measures can be found in the environmental statement<sup>51</sup> to be published annually for each location. The main objectives of environmental protection are the reduction of energy consumption, reduction and prevention of waste, protection of waters as well as immission and noise control.

In order to achieve these goals, the German production companies of the AlzChem Group have introduced various management systems in the areas of environmental, quality and energy management. These management systems are part of the integrated management system (IMS) described above, the advantage of which is that, compared with several isolated management systems, they allow leaner, more efficient management by exploiting synergies. The integrated management system of the AlzChem Group is described in the so-called IMS manual, among other things. It contains relevant processes and regulations as well as responsibilities and tasks.

We regularly monitor, document and evaluate the effects of our activities on the environment by determining environment-related indicators. The presentation of environmental performance in the context of sustainability indicators is intended to provide a quantitative overview of the most important trends for AlzChem. The use of flue gas (CO<sub>2</sub>) in various processes enables us to reduce the amount of CO<sub>2</sub> emitted annually by approximately 49,000 metric tons. Furthermore, in recent years, we have been able to increase the amount of energy from heat recovery and thus make a positive contribution to climate protection in addition to the

<sup>49</sup> The Association for Supply Chain Management, Procurement and Logistics (BME) is the professional association for buyers, supply chain managers and logisticians. By joining the BME's code of conduct, the companies of the AlzChem Group AG commit themselves to prevent bribery and to adhere to ethical principles towards customers, competitors and business partners. All business actions and decisions must be in accordance with applicable laws.

<sup>50</sup> <https://www.alzchem.com/de/qualitaet-umwelt>

<sup>51</sup> AlzChem Group AG homepage:

[https://www.alzchem.com/sites/default/files/uploads/Downloads\\_Bro\\_Fly\\_Zert/Umwelt\\_Zertifikate/alzchem\\_zert\\_uek\\_2019.pdf](https://www.alzchem.com/sites/default/files/uploads/Downloads_Bro_Fly_Zert/Umwelt_Zertifikate/alzchem_zert_uek_2019.pdf) (February 10, 2020)

amount of CO<sub>2</sub> used. In recent years, dust emissions into the air have been kept at a very low level overall. NOX emissions have also been significantly reduced in recent years through various improvements in fuel quality. Wherever possible, production-specific waste is fed back into the production process or recycled internally.

Essentially, we base our assessment of environmental performance on the requirements of EMAS and ISO 14001<sup>52</sup>. For further information, please refer to the published environmental statements.

AlzChem can react flexibly to changes in demand on the market due to its highly diversified product range. Due to the resulting changes in production, the indicators mentioned in the environmental statement and sustainability report can vary considerably from year to year. Apart from production-related fluctuations, there were no significant deviations for 2019 as a whole from the previous year.

In addition to numerous internal audits, external monitoring audits by an external monitoring company also play an important role in the recertification or revalidation process. The companies of the AlzChem Group also conduct supplier and customer audits. In addition to quality issues, environmental aspects are also considered here.

Relevant authorities also regularly check compliance with the requirements from approval notices and environmental law in the operation of our facilities. In order to be able to carry out these reviews as efficiently as possible for both the authority and the AlzChem Group, a project was developed in cooperation with the authorities and with other companies in the Chemical Triangle, the model of cooperative plant monitoring.

Our subsidiary Nordic Carbide AB, based in Sundsvall, Sweden, is subject to Swedish environmental legislation. The company also publishes an annual environmental statement, which has been submitted to local authorities.

### Water/waste water

We are committed to the responsible use of water, we want to use water as sparingly as possible and further reduce our water consumption. A good water supply is one of the most important prerequisites for a smooth production process as water is one of the most important auxiliaries for the chemical industry.

Our Trostberg, Hart, Schalchen and Waldkraiburg sites are located north of the Alps. This area is characterized by thick, very porous gravel layers, which contain significant groundwater resources. This geological feature allows us to extract the total cooling, service and drinking water from our own groundwater wells.

The implemented water management of the German AlzChem sites allows a monitoring of the wastewater, which consists mainly of cooling and rainwater. Only a small fraction of waste water (about 0.5%) has to be cleaned in a wastewater treatment plant.

The use of industrial water in the various production processes necessarily leads to the production of contaminated process wastewater. Contaminated process waste water is recycled internally instead of fresh water (if possible without harming quality or the environment) or disposed of externally as waste. On the other hand, waste water is treated in the company's own central waste water treatment plant (ZABA).

The cooling water supply for Nordic Carbide AB is ensured by the local site operator at the mouth of the Ljungan, with an average water supply of 200 m<sup>3</sup>/s. For carbide production, a maximum of 0.5 m<sup>3</sup>/s is required, so that the environmental intervention can be described as very low.

### Waste/flue gas

The total amount of waste generated by our sites varied compared to previous years. This is mainly due to the construction of the Creamino® production plant at the Trostberg site, which was completed in 2019. Production-specific waste accounts for the largest share, while

<sup>52</sup> The international environmental management standard ISO 14001 sets out globally recognized requirements for an environmental management system. For the certification by TÜV SÜD Management Service GmbH, see the homepage of AlzChem Group AG: [https://www.alzchem.com/sites/default/files/uploads/Downloads\\_Bro\\_Fly\\_Zert/Umwelt\\_Zertifikate/Zertifikate/alzchem\\_zert\\_9001-14001\\_tro\\_2018\\_de.pdf](https://www.alzchem.com/sites/default/files/uploads/Downloads_Bro_Fly_Zert/Umwelt_Zertifikate/Zertifikate/alzchem_zert_9001-14001_tro_2018_de.pdf) (February 10, 2020)

non-production-specific waste relates to all other waste. This mainly relates to waste resulting from construction and demolition measures. Wherever possible, production-specific waste is recycled in internal production processes. Environmental goals in the area of waste help to avoid waste or reduce the amount of waste.

The annual emissions report of the waste gas incinerator (AGV) for the Trostberg chemical park was published in May 2019.<sup>53</sup> AlzChem thus informs the public about the proper operation of the AGV. As in previous years, the prescribed limit values were continuously monitored in 2018. The daily average values were not exceeded. With the operation of the AGV, AlzChem ensures the reliable disposal of flue gases and chemical water at the Trostberg chemical park, thus avoiding unnecessary transportation of hazardous waste.

The AlzChem Group AG constantly strives to improve its recycling rate and percentage. As an example, carbide production at the Hart site can be cited as an example. The manufacturing process produces the by-products carbide furnace gas and KOKA granules. The gas is extensively cleaned in several stages, then compressed and transported through a gas pipeline to the Trostberg and Schalchen sites, where it is used as heating and synthesis gas. The KOKA granulate is sold.

### Energy management system

AlzChem Trostberg GmbH as an "energy-intensive" company strives to further optimize its handling of the energy resource. Energy management involves systematically carrying out the energetic assessment of the operating areas, the energy performance indicators, the energy targets and the action plans for the continuous improvement of energy-related performance.

For further and location-related information as well as the corresponding goals, we refer here to the yearly published environmental statement.

## 9.6. EMPLOYEE MATTERS, SEC. 315C HGB IN CONNECTION WITH SEC. 289C PARA. 2 NO. 2 HGB

We are committed to our colleagues and, in addition to an attractive remuneration system, we offer job security, collegial action and the opportunity to shape your professional development yourself. Our principles of conduct - reliability, fairness, trust, responsibility and quality - are the benchmark for cooperation within the company, but also in contact with customers and suppliers. We pursue the goal of attracting, retaining, motivating and keeping suitable employees. We want to create a sustainable, stable environment for our employees - without the need for restructuring or compulsory redundancies. We pay particular attention to the satisfaction and commitment of our employees. The level of fluctuation and the average length of service give us an indication of how satisfied our employees actually are. These indicators were 3.5% in 2019 (2018: 3.7%) and 18.4 years (2018: 19.0 years). With these two indicators, AlzChem clearly stands out from the average values for length of service (11.5 years<sup>54</sup>) and fluctuation (16%<sup>55</sup>) in Germany. In order to achieve our goals, we have taken numerous measures, which we will briefly discuss below.

### Flexible working hours

Within a fixed framework time, our employees can largely determine the start and end of their work themselves and arrange their working hours flexibly.

### Attractive remuneration

In addition to the tariff conditions, we offer remuneration based on personal performance and position or responsibility. Moreover, our employees receive a profit sharing that is dependent on the company's success. Company and social benefits are an integral part of our remuneration system. Each employee of our German sites is included in our Group accident insurance, which covers both the company and the private sector in the event of a claim.

53 AlzChem Group AG homepage: [https://www.alzchem.com/sites/default/files/uploads/Downloads\\_Bro\\_Fly\\_Zert/Umwelt\\_Zertifikate/alzchem\\_emissionsdaten\\_und\\_verbrennungsbedingungen\\_2018.pdf](https://www.alzchem.com/sites/default/files/uploads/Downloads_Bro_Fly_Zert/Umwelt_Zertifikate/alzchem_emissionsdaten_und_verbrennungsbedingungen_2018.pdf) (February 10, 2020)

54 IWD - Institut der deutschen Wirtschaft: <https://www.iwd.de/artikel/lange-im-betrieb-355822/> (February 10, 2020)

55 Benchmarking Center Europe: [https://www.benchmarking.center/images/download/studien/human\\_resource\\_management/BM\\_fluktuation\\_branchen.pdf](https://www.benchmarking.center/images/download/studien/human_resource_management/BM_fluktuation_branchen.pdf) (February 10, 2020)

### Health management<sup>56</sup>

The health of our employees is crucial to our mutual success and the resulting improved competitiveness of our company. In addition to the professional, intellectual and social competence, health is the most valuable asset our employees bring to the company. Therefore, there are a variety of offers that give you the opportunity to individually put together your health program, from nutrition, moderate exercise and health care.

### Medical service (company doctor and paramedic)

We offer our employees comprehensive medical care at our sites in Trostberg and Hart. Occupational and emergency medicine includes all measures to prevent work-related illnesses or occupational diseases, to maintain health at the workplace and to diagnose and treat accidents and acute illnesses.

### Operational integration management

Returning to work after illness is often easy. In some cases, however, continuing to work as previously is not immediately possible. In cooperation with the integration team, measures are being developed which continue to make it possible to provide employment that is suitable for handicapped employees. The measures are varied and may include, for example, changes in the content of an activity, personnel support or technical changes in the workplace.

### Ideas management

Ideas generated by employees are expressly welcome. We want to motivate our employees to actively participate in continuous improvement with their ideas. Thus, they promote cooperation and help prevent accidents, improve environmental protection, implement technical progress and ultimately increase the profitability of the company.

Depending on the personal remuneration, up to 20% of the estimated annual benefit as a premium can be remunerated

in the case of suggestions for improvement for which there is proven annual benefit.

### Company pension scheme

Our company pension scheme is implemented as part of a modular system. In the various building blocks, monthly amounts are paid in by the employer and the employee. Furthermore, we offer our employees a long-term account, to which they can contribute both remuneration and holidays or retirement.

### Demography fund

The demography fund is not a monetary fund in the classical sense, but a pot created by the company which collects the demography contributions made by the employer for the tariff employees in order to address the challenges of demographic change. The funds from this pot are used to finance instruments for shaping demographic change. In contrast to collective bargaining increases, there is no individual entitlement on the part of the employee, but only collective leeway for the operating parties.

### Further education

To be able to maintain our position in the field of specialty chemicals in the future, we need a future-oriented, qualified workforce. We offer our employees in every professional field professional training and further education at the workplace or in specialized institutions. Our human resources development is designed to identify and develop potential and talent in the company at an early stage. A wide range of personal and professional modules in the areas of management development, qualification, knowledge management, health management and corporate culture round off our personnel development concept. We address the needs of our employees individually. In this way, we lay the foundation for filling key positions from our own ranks.

## Training

AlzChem is one of the largest trainers in the region. Within the framework of practical training in the relevant specialist departments, we offer our trainees a state-of-the-art training laboratory and ideal training workshops as well as a varied commercial training. The high quality of our training is also recognized by international corporations – so much so that they have us train them.

In 2019, 47 young people started their training at the Trostberg chemical park in commercial, metal and electrical engineering as well as chemical areas. In the training year 2019, the Trostberg chemical park will again maintain the high training ratio of previous years at 9.6%. AlzChem is thus responsible for training a total of 142 future specialists at the chemical park.

## Investment and location development agreement

The works agreement concluded in 2006 for the Trostberg, Schalchen and Hart sites was aimed at providing NCN chemistry with sustainable and competitive prospects in an economically difficult environment at these sites. From today's perspective, it can be stated that numerous measures to reduce costs and increase productivity as well as measures to preserve jobs in the long-term have been implemented. Thanks to the joint efforts, the general conditions for AlzChem have improved significantly.

### 9.7. SOCIAL MATTERS, SEC. 315C HGB IN CONNECTION WITH SEC. 289C PARA. 2 NO. 3 HGB

Political and civic engagement of companies and their employees in a democratic environment is indispensable for the functioning of the economy and society. AlzChem Group AG welcomes the social commitment of its employees in youth work, adult education, sports, in the charitable and in the cultural field and has set itself the goal of actively improving the social life in their locations.

The AlzChem Group is involved, supports children and youth projects, supports school projects and is a member of the non-profit association for the promotion of education and entrepreneurship in Germany, the Wissensfabrik<sup>57</sup>.

As a company with regional roots, we assume responsibility, especially in the regional environment of our locations. In 2019, the AlzChem Group continued to be involved in numerous donation and sponsoring projects. The funds provided were used to support numerous projects and measures focusing on social, sports, cultural and educational activities.

AlzChem is a member of the Trostberg Förderkreis der Wirtschaft, which has set itself the task of promoting education, art, local heritage, music and other cultural purposes as well as sports and social facilities in Trostberg.

## AlzChem promotes education

We value teaching the next generation the fascination of chemistry and the natural sciences at an early stage, and thus showing them the diverse career prospects of the AlzChem Group. The AlzChem education initiative not only includes financial contributions to schools in the catchment area of our sites, but also cooperation in the field of natural scientific learning contents.

The chemical companies AlzChem and BASF are entering into cooperation agreements with kindergartens and elementary schools in the region through an educational partnership. These receive experimental kits and teacher scripts with instructions and background information. Our NaWi team members pass on their knowledge to the teachers of the participating school. They become acquainted with the experiments and gain confidence in using the materials. The event is recognized as a teacher training. Teachers handle implementation. NaWi experiments become an integral part of the physical education at primary schools. After about six months, the NaWi team members and teachers meet to exchange results and experiences from the project. In addition, a scientific evaluation is carried out.

Both projects, which celebrated their 10th anniversary in 2017, are a successful and already proven campaign and cooperation of AlzChem Group AG, BASF in Trostberg and Wissensfabrik. "Wissensfabrik – Unternehmen für Deutschland" is an open platform for all companies, educational institutions and initiatives that promote and share knowledge as the key to more economic growth. Wissensfabrik and we have an important goal: to make the next generation and thus the location Germany fit for the future. We see it as our

57 Wissensfabrik – Unternehmen für Deutschland: <https://www.wissensfabrik.de/portal/fep/de/dt.jsp> (February 20, 2020)

responsibility to provide impetus and to support schools, universities and politics in their educational mission.

Taking time for young people is a tradition and a high priority at AlzChem. For us, the promotion of young people starts at kindergarten. With projects such as "NaWi - Natural Science, how does that work?", we arouse the curiosity of even the very youngest children. The slightly older pupils can complete internships, trial apprenticeships or workshops in the training laboratory at AlzChem. As a passionate chemical company, we are happy to pass on our enthusiasm. AlzChem Group AG sees its commitment to the next generation as an investment in both its own and the regional future. We feel very close to the region and would like to offer children and young people career prospects in the spirit of good neighbourliness.

#### 9.8. COMPLIANCE, RESPECT FOR HUMAN RIGHTS AND FIGHTING CORRUPTION AND BRIBERY, SEC. 315C IN CONNECTION WITH SEC. 289C PARA. 2 NO. 4 AND 5 HGB

The term compliance refers to the entirety of all measures to be observed that constitute the compliance of a company and its employees with regard to all legal requirements and prohibitions. In addition, the conformity of the entrepreneurial business is to be ensured with all social guidelines and core values. These include, in particular, the observance of human rights and the fight against corruption and bribery.

The declared goal of the AlzChem Group is to always comply with all applicable laws and core social values, particularly with respect for human rights and the fight against corruption and bribery. No employee, job applicant or business associate may be disadvantaged on grounds of race or ethnicity, gender, religion or belief, disability, age or sexual identity. Any kind of harassment is prohibited.

In order to achieve these goals, the AlzChem Group has established a compliance system that serves to prevent or limit the damage, detect and terminate infringements and fulfill statutory obligations.

AlzChem Group AG has joined the code of conduct of the Association for Supply Chain Management, Procurement and Logistics (BME). The company is committed to stopping bribery and adhering to ethical principles towards customers, competitors and business partners. All business actions and

decisions must be in accordance with applicable laws. As an extension of the BME code of conduct, the AlzChem Group AG has implemented its own guidelines, which summarize the most important corporate policy principles and standards of AlzChem, with which all employees must be familiar. They provide orientation on the fundamental legal and ethical obligations of AlzChem employees and give them the security they need to behave correctly in their jobs.

In recognition of its commitment to governance and compliance, AlzChem has set up a whistleblower hotline<sup>58</sup> with an external reporting office. Heussen Rechtsanwalts-gesellschaft mbH, an independent law firm, acts as the external reporting point for employees of the AlzChem Group and third parties, such as business partners and customers. In addition, the compliance manager continues to be available as a contact person. The lawyers at Heussen Rechtsanwalts-gesellschaft mbH are subject to professional secrecy in accordance with the professional regulations applicable to lawyers and will, to the extent desired by the employee and legally possible, treat the identity of the employee and the information provided confidentially, also in relation to companies of the AlzChem Group. The employees concerned will not suffer any disadvantages by contacting the "whistleblower hotline" or the compliance manager, provided that they have not themselves violated the law or the corporate guidelines.

The integrity of all actions is an essential prerequisite for sustainable business success. As a globally active group, AlzChem is subject to numerous national and supranational legal provisions (e.g. EU regulations), but also to the legal provisions of other countries. All business matters and processes must therefore be managed in such a way that they comply with all applicable laws and other binding regulations within the scope of which AlzChem conducts its business. Our employees are prohibited from issuing instructions that deviate from these rules and regulations and that lead to a violation of the conduct of business activities as defined in our guidelines.

Consequently, any active or passive bribery or acceptance of an advantage in accordance with the provisions of secs. 299 et seq. Criminal Code, as well as any attempt to do so, is prohibited. Through our actions, we want to avoid giving the impression that our employees want to exert influence through extraneous means. In the AlzChem Group,

gifts, favors, hospitality or other benefits may only be granted or accepted if they do not exceed the scope of business practices in the region concerned, are not of an unreasonably high value and are within the scope of what is permitted by law or labor law.

The AlzChem Group is committed to fair competition for the benefit of its own customers and other stakeholders - and we respect the independence of public officials. For this reason, any form of corruption, including so-called acceleration payments, is prohibited at the AlzChem Group. Our corporate guidelines form the basis of our anti-corruption regulations.

We treat all business partners in a legally impeccable and fair manner. Suppliers and service providers are selected by the purchasing organization in an orderly procedure based on objective and comprehensible criteria. Contracts are awarded on the basis of competitive bids as far as possible and reasonable. When selecting our suppliers, we ensure that they act in accordance with the principles of our corporate guidelines. Incentives such as performance-related commissions, discounts, price reductions or free delivery of goods require great care in their application to ensure compliance with the various legal regulations. Therefore, business incentives in the AlzChem Group must be documented comprehensively and accurately. In order to prevent fraudulent actions, payment for deliveries and services is made directly to the respective contractual partner. In addition, full or partial payment in cash is prohibited, except in minor cases.

Furthermore, reference is made to the joint corporate governance report of the Management Board and Supervisory Board as part of the annual report.

## 9.9. SAFETY

The protection of people from adverse effects on safety and health caused by products, business and production processes, as well as the responsible handling of the environment and natural resources are elementary components of responsible corporate action for the AlzChem Group AG. Starting from compliance with laws and agreements as a basis, we work to continuously improve our performance and management system in this area.

As a company in the Trostberg chemical park, we not only want to be economically successful, but also a good partner,

employer, trainer and neighbour. Based on this self-image, we also assume responsibility for the safety and protection of our environment. For over 100 years, we have been operating plants at the Trostberg and Hart sites that are subject to the so-called Major Accidents Ordinance. This ordinance regulates the protection of people and the environment from the consequences of possible incidents in technical plants, in which hazardous substances could possibly escape. A wide range of our own safety initiatives, a well-trained plant fire brigade and the extensive safety precautions in our plants and facilities, which have been optimized in cooperation with the authorities, help to minimize dangers for our employees and the people in our neighborhood. As a company of ChemDelta Bavaria, we provide information on safety measures and the correct behavior in the event of incidents in a current brochure. The information contained in the brochure can be viewed at any time on the homepage of AlzChem Group AG.

The carbide plant in Sweden also falls within the scope of the European SEVESO III Directive and is therefore subject to the relevant Swedish laws, which are comparable to the German Major Accidents Ordinance.

### Occupational and plant safety/industrial safety measures

AlzChem has implemented an occupational health and safety management system in accordance with OHRIS (Occupational Health and Risk Management System). The long-standing certification was extended by the government of Upper Bavaria by three years in 2018.

All companies located at the sites operated by AlzChem participate in joint safety work in seven working committees. The safety steering committee is the key authority in safety and health work at the German sites of AlzChem Group AG. The safety steering committee, which usually meets monthly, controls and coordinates the activities of the safety and health program.

Safety audits are an important instrument of our safety management system for avoiding unsafe actions. Their aim is to motivate all employees to act safely on a regular basis and to identify and remedy misconduct and safety deficiencies. We also encourage our employees to report near-accidents. The technical term for a near-accident is "near miss". There is great potential in near miss cases, as much can be learned from them before anything happens. Near misses give us the opportunity to actively deal with mistakes and dangers.

Another important pillar of occupational health and safety is the various types of risk assessment. This effort has paid off and is reflected in the corresponding key figures for occupational safety: the 1,000 man ratio - i.e. the number of reportable occupational accidents per 1,000 full-time employees - was 7.1 at the German sites in 2019 as a whole, far below the average value of 18.15<sup>59</sup>.

In addition to the 1,000 man ratio, the AlzChem Group determines its own safety performance using the KSUND key figure. KSUND is a key figure for safety and accidents involving external medical care and takes into account not only our own employees, but also employees under the AÜG and contractor employees. For the full year 2019, the KSUND rate is 15.0, which is below the previous year's figure and below the target of 15.3.

In 2019, regular inspections by the supervisory authorities, such as the incident inspection at the Trostberg plant, took place. In addition, new processes as well as process and plant modifications are examined for their hazard potential. A systematic approach to emergency and incident management has been developed in the event of an alarm.

It is good practice that numerous exercises have again been carried out in recent years in order to be prepared and able to act in the event of an incident.

### Information security

Our asset-based information security risk management not only takes into account the technical infrastructure, but also effectively involves the entire organization, including human behavior and immaterial damage classes.

In order to achieve the optimum security level for the AlzChem Group, for example, protective zones have been defined for physical security, information has been classified using a so-called "confidentiality matrix" and procedural instructions

have been used to achieve an equal understanding of the security process in practice.

Regular information on specific occasions and mandatory training courses ensure that the subject of information security remains in the minds of employees.

### IT compliance

The responsible specialist department monitors the implementation of the compliance requirements of the legislator and the AlzChem Group. During the reporting period, the internal control system was expanded and corresponding processes were automated.

The operational safety - especially of critical IT systems - is constantly being improved through optimized system management. In view of a continuously growing threat situation, we regularly review our protective measures, implement necessary countermeasures on a risk-based basis and continually review them to ensure they are up-to-date.

### Legal conformity

AlzChem complies with the legal requirements with regard to environmental impact. In addition to the notices of approval, the Federal Immission Control Act with its ordinances (e.g. the Hazardous Incident Ordinance, 17th BImSchV), the Water Resources Act, the Waste Water Ordinance, the Ordinance on Installations for Handling Substances Hazardous to Water (VAwS) and various laws and ordinances on waste law and nature conservation law are essential. In order to implement compliance with legal requirements and to monitor the rules and regulations, AlzChem uses the so-called dialogue system „Law in Operation“, which is regularly updated. In this system, all regulations are checked for relevance and assigned to the respective departments. Changes are entered into the database in monthly updates and made available to the affected departments for information purposes.

## 10. CORPORATE GOVERNANCE REPORT AND DECLARATION ON CORPORATE GOVERNANCE PURSUANT TO SEC. 315D HGB IN CONNECTION WITH SEC. 289F HGB

### 10.1. CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY ACCORDING TO SEC. 161 AKTG

Corporate governance comprises all principles for the management and supervision of a company. In this sense, corporate governance as an expression of good and responsible management is an essential part of the management philosophy of the AlzChem Group.

The principles of corporate governance primarily concern the cooperation within the Management Board of the Supervisory Board and between the two bodies, as well as the relationship with our shareholders, especially in and towards the Annual General Meeting. This also includes transparent and comprehensible reporting on the remuneration structure of the company's bodies and the specific remuneration of their members (see 8.10. above). Finally, the principles of corporate governance also apply to the relationship of our company with other persons and institutions that have an economic relationship with us.

For AlzChem, the starting point for ensuring responsible management and control of the company with a view to sustained value enhancement is therefore - in addition to compliance with the relevant legal standards - recognition of the German Corporate Governance Code (Code or GCGC).

#### DECLARATION OF CONFORMITY PURSUANT TO SEC. 161 AKTG

The recommendations of the Government Commission "German Corporate Governance Code" in the version of February 7, 2017 (GCGC) published by the Federal Ministry of Justice in the official section of the Federal Gazette have been complied with by AlzChem Group AG ("company") since the

last declaration of conformity was issued in March 2019, with the two deviations explained below. The company intends to comply with these recommendations to the same extent in the future.

#### Deductible for D&O insurance for Supervisory Board members (section 3.8 para. 3 GCGC)

The D&O insurance taken out by the company does not provide for a deductible for members of the Supervisory Board. Unlike the members of the Management Board, no such deductible is required by law for members of the Supervisory Board. In view of the role of the Supervisory Board, which is also reflected in the different remuneration structure compared to the Management Board, this distinction in the treatment of the Management Board and the Supervisory Board appears appropriate. Neither the Management Board nor the Supervisory Board regard a deductible as an effective way of increasing the motivation and sense of responsibility of the Supervisory Board members.

#### Determination of the target pension level for pension commitments in favor of the members of the Management Board (section 4.2.3 para. 3 GCGC)

The Code recommends that the Supervisory Board should determine the target level of pension benefits for pension commitments in favor of the Management Board members - including those based on the length of service on the Management Board - taking into account the resulting annual and long-term expenses for the company. The Supervisory Board has not defined any such pension level. Instead, each member of the Management Board is entitled to a contribution-based pension module, the amount of which is determined as a percentage of his or her annual base salary and, if applicable, part of the variable remuneration. This gives the Supervisory Board a clear idea of the annual and long-term expenses for the company, which also depend on actuarial effects due to the formation of reserves.

Contrary to the requirements of the GCGC, it is increasingly common practice not to define a specific pension level but to use a defined contribution and defined benefit system.

Trostberg, in December 2019

AlzChem Group AG

For the Supervisory Board



Markus Zöllner

The Management Board



Andreas Niedermaier



Klaus Englmaier



Ulli Seibel



Dr. Georg Weichselbaumer

## 10.2. RELEVANT DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES

The company complies with all legal requirements applicable to it and - with the exceptions explained above - complies with the recommendations of the German Corporate Governance Code.

In addition, the internal corporate guidelines for the entrepreneurial activities of the company and its employees ("AlzChem Corporate Guidelines"), which are available to everyone on our website at [www.alzchem.com](http://www.alzchem.com), are particularly relevant for corporate governance.

### 10.2.1. WORKING METHODS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

#### 10.2.1.1. MANAGEMENT BOARD

The members of the Management Board shall manage the business of the company on their own responsibility in the interest of the company in accordance with the law, the articles of association, the rules of procedure for the Management Board and the schedule of responsibilities. The Management Board observes the recommendations of the German Corporate Governance Code and reports and justifies any deviations in the declaration of conformity. The Management Board is responsible for defining the company's business objectives, basic strategic orientation, business policy and group organization, coordinating these with the Supervisory Board and ensuring their implementation. It is responsible for ensuring compliance with statutory provisions and internal company guidelines and works to ensure that these are observed by the Group companies (compliance). It is also responsible for ensuring appropriate risk management and risk controlling within the company.

The Management Board initially had three members in fiscal year 2019 and four members as of July 1, 2019. Following the departure of Mr. Seibel at the end of fiscal year 2019, the Management Board will again consist of three members. One member of the Management Board has been appointed as its Chairman. The Management Board works on the basis of the rules of procedure for the Management Board adopted by the Supervisory Board by resolution of August 24, 2017. The current rules of procedure for the Management Board are published on the company's website at [www.alzchem.com](http://www.alzchem.com).

The Chairman of the Management Board coordinates the cooperation within the Management Board as well as the information of the Supervisory Board and maintains regular contact with the Chairman of the Supervisory Board. He must work to ensure that the management of the Management Board departments is uniformly aligned with the objectives

defined by the Management Board resolutions. It may at any time request information from the members of the Management Board on individual matters relating to their areas of responsibility and determine that it is to be informed in advance of certain types of transactions. The Chairman of the Management Board represents the Management Board and the company to the public in matters affecting the entire company. He may delegate these duties for certain types of matters or, in individual cases, to another Management Board member.

The responsibilities of the individual members of the Management Board are defined in the schedule of responsibilities last adopted for the company in May 2019, which - also in the event of future changes - is proposed by the members of the Management Board and requires the approval of the Supervisory Board. The current schedule of responsibilities provides for the following allocation of responsibilities.

	<b>Ulli Seibel</b> CEO until 06/30/2019, from 07/01/2019 until 12/31/2019 CPO	<b>Andreas Niedermaier</b> CFO until 06/30/2019, since 07/01/2019 CEO	<b>Klaus Englmaier</b> COO	<b>Dr. Georg Weichselbaumer</b> CSO
<b>Essential functions</b>	Communication	Law	Production	Marketing
	Marketing	Insurance	Technology	Sales
	Sales	Controlling, finance, taxes	Environment, safety, health, quality	Innovation management
	Innovation management	HR		
	Strategy	Supply chain management		
	Investor relations	IT		
	Projects	Risk management		
		Investor relations		
		Strategy		
		Communication		

Within his or her area of responsibility, each member of the Management Board makes decisions independently, with particular attention being paid to the overall responsibility and collegiality of the Management Board as a whole. If a matter affects the portfolios of more than one member of the Management Board, they decide jointly. If no agreement is reached, each member of the Management Board involved is obliged to bring about a resolution by the Management Board as a whole. In this case, the measure must not be taken until the decision of the Board of Management, unless immediate implementation is required at the discretion of the Management Board to avoid imminent serious disadvantages for the company. The Management Board member concerned must then inform the Management Board of such an event without delay.

The Management Board fulfils its reporting obligations to the Supervisory Board as set out in sec. 90 AktG and other legal provisions, the company's articles of association and the rules of procedure, whereby the Management Board reports to the entire Board and, on important occasions, to the Chairman of the Supervisory Board. Reports by the Management Board to the Supervisory Board are generally to be submitted in text form, unless the law provides otherwise. If necessary in individual cases due to particular urgency, oral reports are to be made to the Supervisory Board.

As part of its reporting, the Management Board informs the Supervisory Board regularly, promptly and comprehensively, particularly in the course of its meetings, in particular about fundamental issues of corporate planning, the net assets, financial position and results of operations and profitability, as well as the business development of the company and its subsidiaries. The Management Board must respond to any deviations from previously prepared plans and targets by stating the reasons. The reports of the Management Board must also contain information on the risk situation, risk management and compliance.

Unless otherwise determined by the Supervisory Board, the Management Board shall report to the Supervisory Board at the last meeting of the Supervisory Board of a fiscal year on the intended business policy and other fundamental issues of corporate planning and shall submit to the Supervisory Board the budget for the following fiscal year (including financial, investment and personnel planning). In doing so,

it shall in particular address any deviations in the actual course of business from the plans and targets presented earlier, stating the reasons. Unless otherwise determined by the Supervisory Board, the Management Board informs and reports to the Supervisory Board about the profitability of the company, in particular the return on equity, at the Supervisory Board meeting at which the annual financial statements are discussed.

Unless otherwise determined by the Supervisory Board, the Management Board regularly reports to the Supervisory Board at the regular Supervisory Board meetings on the course of business, in particular on revenue and earnings, the situation of the company, in particular the risk situation and risk management, and on all issues of business policy and profitability relevant to the company.

In addition, the Chairman of the Management Board reports to the Chairman of the Supervisory Board in good time on transactions that could be of considerable importance for the profitability or liquidity of the company. Notwithstanding existing reservations of approval by the Supervisory Board for significant transactions and the reporting obligations laid down in particular in sec. 90 AktG, the Management Board informs the Chairman of the Supervisory Board promptly and comprehensively about all business matters that are of particular importance due to their financial impact and/or their significance for general corporate policy, including in particular the risk situation and risk management.

### 10.2.1.2. SUPERVISORY BOARD

#### Tasks

The Supervisory Board advises the Management Board on the management of the company and monitors its conduct of business (see also the report of the Supervisory Board in this annual report on the activities of the Supervisory Board). The Supervisory Board ensures that the Management Board fulfils its reporting obligations to the Supervisory Board or its Chairman. The Supervisory Board carries out its activities in accordance with the statutory provisions, the company's articles of association and the rules of procedure. The recommendations of the German Corporate Governance Code concerning the Supervisory Board are observed, unless otherwise stated in the declaration of conformity to

be published on the company's website in accordance with sec. 161 AktG. The members of the Supervisory Board have equal rights and duties and are not bound by instructions. In performing its duties, the Supervisory Board cooperates closely and in a spirit of trust with the Management Board for the benefit of the company. The Supervisory Board regularly reviews the efficiency of its activities. The next efficiency review for the Supervisory Board and its committees is scheduled for the fiscal year 2020.

### Composition/goals/competence profile

The Supervisory Board of AlzChem Group AG (Group parent company) consists of four members to be elected by the Annual General Meeting in accordance with sec. 8 para. 1 of the articles of association. The Supervisory Board is to be composed in such a way that its members as a whole have the knowledge, skills and professional experience required to properly perform their duties. Taking into account the recommendations of the German Corporate Governance Code, the Supervisory Board specifies concrete objectives for its composition. For the company's Supervisory Board, these goals, which were resolved by the Supervisory Board in November 2017, essentially consist of ensuring that the professional and company-specific expertise is available in the entire body and that gender diversity and a balanced age structure among the members of the Supervisory Board is ensured.

Furthermore, section 5.4.1 GCGC (in the version dated February 7, 2017) recommends that the Supervisory Board should establish a competence profile. The Supervisory Board complied with this recommendation by resolution of November 22, 2018. According to this resolution, the proper performance of its duties requires each individual member of the Supervisory Board to act with integrity and ethical responsibility. Only with the necessary entrepreneurial understanding, analytical vision and open-mindedness for innovative thinking can the Supervisory Board monitor the Management Board and, if necessary, provide company-specific advice. In order to ensure the professional competence of the Supervisory Board, the following criteria, among others, must be taken into account in the composition of the body as a whole (i.e. not in the person of each individual member of the Supervisory Board):

- knowledge in the areas of corporate planning, corporate financing and capital market topics
- experience and expertise in the fields of accounting and auditing
- experience with entrepreneurial strategy development and implementation as well as M&A transactions
- experience in personnel planning and personnel management, in particular recruitment and development of specialists (succession planning)
- experience in supervisory and committee work and in the management of large organizations

In the opinion of the Supervisory Board, the existing body completely fills the specified competence profile; it also corresponds to the goals (including diversity) that it has set itself. Proposals of the Supervisory Board to the Annual General Meeting for the election of new Supervisory Board members will - in addition to taking into account the self-imposed objectives - also focus on filling out the competence profile.

### Requirements for each Supervisory Board member

Each member of the Supervisory Board ensures that he or she has sufficient time to perform his or her duties. At the time of his election or re-election, a member of the Supervisory Board shall not be older than 68 years of age and shall not serve on the Supervisory Board for more than 15 years.

The Supervisory Board must include what it considers to be a sufficient number of independent members; in the opinion of the company's Supervisory Board, 75% of the members of the Supervisory Board should be independent. In particular, a member of the Supervisory Board shall not be considered independent if he or she has a personal or business relationship with the company, its executive bodies, a controlling shareholder or one of its affiliated companies that could give rise to a material and not merely temporary conflict of interest. At least one member of the Supervisory Board must have expertise in the fields of accounting or auditing (sec. 100 para 5 AktG). Prof. Dr. Heigl-Murauer currently acts as this so-called financial expert on the company's Supervisory Board.

The Supervisory Board may not include more than two former members of the Management Board. Members of the Management Board may not become members of the Supervisory Board before two years have elapsed since the end of their appointment, unless they are elected on the basis of a proposal by shareholders holding more than 25% of the voting rights in the company. In the latter case, the change to the chairmanship of the Supervisory Board shall be an exception to be justified to the Annual General Meeting. The members of the Supervisory Board may not exercise executive or advisory functions for major competitors of the company.

The members of the Supervisory Board, insofar as they are simultaneously active as members of the Management Board of a listed company, may not, in addition to their Supervisory Board mandate for the company, exercise more than two additional Supervisory Board mandates in non-group listed companies or companies with comparable requirements. The above rules shall be taken into account when proposing candidates for the election of Supervisory Board members. At the beginning of its term of office, the Supervisory Board elects a Chairman and a Deputy Chairman from among its members in a meeting that is not specially convened. If necessary, additional deputy chairmen may be elected.

#### Chairman and Deputy Chairman of the Supervisory Board

Unless a shorter term of office is determined at the time of election, the Supervisory Board elects the Chairman and Deputy Chairman/Chairmen for the term of office of the elected Supervisory Board member. If the Chairman or a Deputy Chairman resigns from the Supervisory Board during his term of office, a new election for the resigning member shall be held immediately. The election shall be conducted by the oldest Supervisory Board member present.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board. He informs the other members of the Supervisory Board on a regular basis, in particular in the event of measures taken in connection with transactions requiring urgent approval. Declarations of intent by the Supervisory Board are made on behalf of the Supervisory Board by the Chairman - or, if he is prevented from doing so, by his Deputy. The Chairman - or, if he is prevented, his Deputy - is authorized to accept declarations on behalf of the Supervisory Board. The Deputy Chairman only has the rights and duties of the Chairman if mandatory law or the articles of association

expressly confer these rights and duties on him. The Deputy Chairman is not entitled to the second vote of the Chairman pursuant to sec. 11 para. 3 of the articles of association.

#### Rules of procedure of the Supervisory Board

The Supervisory Board has adopted rules of procedure which form the basis of its activities, in particular the cooperation within the body. The current rules of procedure of the Supervisory Board are published on the company's website at [www.alzchem.com](http://www.alzchem.com).

#### Composition of the Supervisory Board

The Supervisory Board of the company was composed as follows in the reporting period:

Member	Since
Markus Zöllner	08/04/2017
Prof. Dr. Martina Heigl-Murauer	08/04/2017
Dr. Caspar Freiherr von Schnurbein	08/04/2017
Steve Röper	10/02/2017

In accordance with section 5.4.2 GCGC (in the version dated February 7, 2017), the composition of the Supervisory Board takes into account the company's ownership structure. In the opinion of the Supervisory Board, all members of the Supervisory Board are to be considered independent - also with respect to the company's major shareholders; in any event, the Supervisory Board therefore includes what the Supervisory Board considers to be an appropriate number of independent members within the meaning of section 5.4.2 of the GCGC (in the version dated February 7, 2017). The Chairman of the Supervisory Board is Markus Zöllner; his deputy is Dr. Caspar Freiherr von Schnurbein.

#### Committees of the Supervisory Board

The Audit Committee consists of Prof. Dr. Heigl-Murauer (Chairman), Dr. Freiherr von Schnurbein and Markus Zöllner. The members of the Nomination Committee are Markus Zöllner (Chairman), Dr. Freiherr von Schnurbein and Steve Röper. The Nomination Committee did not have to take any action during the reporting period; the Audit Committee met a total of five times. The committee reports regularly to the Supervisory Board on the meetings it holds and the resolutions it passes. With regard to the working methods of the committees, the rules of procedure of the Supervisory Board (publicly available

on the company's website at [www.alzchem.com](http://www.alzchem.com)) declare that their main procedural rules also apply to the committees.

#### Frequency of meetings; individual participation in meetings

The company's Supervisory Board and Audit Committee each met five times during the reporting period. In addition, the Supervisory Board adopted resolutions by written procedure.

All meetings and resolutions were attended by all members of the Supervisory Board and the Audit Committee.

In order to avoid repetition for the activities of the Supervisory Board of AlzChem Group AG and its committees, please refer to the report of the Supervisory Board.

#### Supervisory board of AlzChem Trostberg GmbH

The Supervisory Board of AlzChem Trostberg GmbH, a wholly owned subsidiary of AlzChem Group AG, consists of six members, four of whom are elected by the shareholders and two by the employees in accordance with the provisions of the One-Third Participation Act. On behalf of the shareholders, it was composed in the year under review of the four members of the Supervisory Board who are also members of the Supervisory Board of AlzChem Group AG (Prof. Dr. Heigl-Murauer, Mr. Röper, Dr. Freiherr von Schnurbein and Mr. Zöllner) and, as employee representatives, Mr. Karl Held and Mr. Otto Wolf. The Chairman of the Supervisory Board is Mr. Markus Zöllner, his deputy is Mr. Karl Held. The Supervisory Board has formed an Audit Committee consisting of three members - Prof. Dr. Heigl-Murauer (Chairman), Mr. Zöllner and Mr. Held.

#### 10.2.1.3. AVOIDANCE OF CONFLICTS OF INTEREST

The members of the Management Board and Supervisory Board disclose any conflicts of interest to the Supervisory Board without delay. In the period under review, no conflicts of interest arose among the members of the Management Board and the Supervisory Board.

### 10.3. DIVERSITY CONCEPT

The composition of the Management Board of AlzChem Group AG must be balanced and appropriate to the company, so that its members as a whole have the knowledge, skills and experience required to manage an internationally active chemical group. The basic suitability criteria for a Management Board position are, in particular, personality, integrity, convincing leadership qualities, professional qualifications for the department to be assumed, previous performance and the ability to adapt business models and processes in a changing world.

The composition of the Management Board is determined by the interests of the company and the most mutually complementary profiles of its members. In particular, the following diversity aspects are also taken into account:

- Management Board members should have many years of management experience.
- Management Board members should have different professional experience as well as comprehensive skills and knowledge.
- The Management Board as a whole should have many years of experience in the chemical industry.
- There should be a sufficient age mix on the Management Board.

A decision as to which person, if any, should be appointed to a specific position on the Management Board must be made after considering all circumstances of the individual case.

### 10.4. INFORMATION ON STATUTORY MINIMUM QUOTAS IN MANAGEMENT POSITIONS

AlzChem Group AG as a listed parent company and its wholly owned subsidiary AlzChem Trostberg GmbH, which is subject to the One-Third Participation Act, have to meet targets for the proportion of women on their respective Supervisory Boards and Management Boards as well as for the two management levels below management in accordance with sec. 76 para. 4 and sec. 111 para. 5 of the German Stock Corporation Act. The companies concerned have complied with this as follows:

- On November 22, 2018, the Supervisory Board of AlzChem Group AG set the target figures for the proportion of women on the Supervisory Board and Management Board to be achieved by June 30, 2022, at 25% (for the Supervisory Board) and 0% (for the Management Board). As of December 31, 2019, the proportion of women on the Supervisory Board was 25% and on the Management Board 0%. In addition, the Management Board of AlzChem Group AG has set the target for the proportion of women for the first and second management levels below the Management Board at 0 % by June 30, 2022. It should be noted that only very few employees work for AlzChem Group AG, which essentially functions as a holding company. Under the given circumstances, the determination of (interim) target achievement for the first and second management levels below the Board of Management at the end of the reporting year is obsolete.
- On September 29, 2017, the Supervisory Board of AlzChem Trostberg GmbH set the target figures for the proportion of women on the Supervisory Board and in management, to be achieved by June 30, 2022, as follows: Supervisory Board 16.66% and Management 0%. In addition, by resolution of 29 June 2017, Management confirmed the target figures of the previous year and set the target value for the period until June 30, 2022 for the proportion of women for the first management level below the Management at 0% and for the second management level below the Management at 8%. As of December 31, 2019, the target figure for the second management level below the Management has already been reached at 11.7%; for the first management level below the Management, (interim) target achievement by the end of the reporting year is obsolete. Due to the specific conditions in the chemical industry, the company does not currently consider target figures that comply with the legal guideline of 30% to be achievable.

## 11. SUPPLEMENTARY REPORT

After the end of the fiscal year 2019 and up to the date of the preparation of the consolidated financial statements, the annual financial statements and the combined management report, no matters arose with a material effect on the net assets, financial position and results of operations.

## 12. RESPONSIBILITY STATEMENT

We assure to the best of our knowledge that, in accordance with applicable accounting principles, the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations, while the combined management report accurately presents the course of business including the business results and the situation of the Group in a way that clearly demonstrates the current opportunities and risks of expected Group development.

Trostberg, February 28, 2020

AlzChem Group AG

The Management Board



Andreas Niedermaier (CEO)



Klaus Englmaier (COO)



Dr. Georg Weichselbaumer (CSO)

## APPENDIX I

### DECLARATION ON THE FEE TRANSPARENCY LAW ACCORDING TO SEC. 264 PARA. 3, SEC. 289 HGB

The Act on the Promotion of Pay Transparency between Women and Men entered into force on July 6, 2017. The main focus of the law is the right of individual employees to information on the remuneration of the opposite sex in companies with more than 200 employees. In addition, the Act contains a request to the employer to conduct investigations into compliance with the requirement of equal pay and a reporting obligation on the part of employers with more than 500 employees regarding statistical data and the equality measures implemented in the company. The right to information could be asserted for the first time as of February 2018. The equality report must be prepared for the first time in 2018 for the year 2016. The report is to be attached to the management report as an annex and published in the Federal Gazette, sec. 22 para. 4 of the Pay Transparency Act. It does not form part of the annual financial statement documents or the management report.

AlzChem guarantees its employees fair remuneration and transparency of remuneration. This is achieved in detail as follows:

- AlzChem Trostberg GmbH, NIGU Chemie GmbH and Nordic Carbide AB are members of the VBCI and IKEM employers' associations and apply the collective agreements of the chemical industry. The collective agreements and pay tables can be viewed by all employees.
- AlzChem regularly carries out function evaluations in summary form with its company partner for the area of tariff employees in accordance with the provisions of collective agreements. Equivalent functions are combined into job families, thus ensuring fair and gender-neutral classification and remuneration.

- AlzChem has also agreed with its company partner on a binding set of rules for gender-neutral, competitive salary determination and development for non-pay-scale employees and senior managers. In addition, there is an evaluation commission with equal representation of men and women, which ensures a gender-neutral and uniform evaluation and classification of positions.
- AlzChem promotes a women- and family-friendly working environment. This is achieved above all through flexible working hours agreed with the company partner and a variety of part-time models.

As of December 31, 2019, the AlzChem Group employed 1,303 men (including the 3 members of the Management Board) and 169 women full-time, and 53 men and 110 women part-time.



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# CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2019

## CONSOLIDATED INCOME STATEMENT

OF ALZCHEM GROUP AG, TROSTBERG, FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in EUR thousand	Notes No.	07/01 - 12/31/2018	01/01 - 01/31/2018*	01/01 - 12/31/2019
Revenues	1	179,976	375,217	376,072
Change in inventories of finished and unfinished products		671	5,461	-4,862
Other operating income	2	6,837	13,436	17,147
Cost of materials	3	-75,249	-155,429	-142,391
Personnel expenses	4	-55,560	-114,185	-122,088
Other operating expenses	5	-38,254	-75,121	-73,800
<b>EBITDA</b>		<b>18,421</b>	<b>49,379</b>	<b>50,078</b>
Depreciation and amortization	6/10/11/12	-7,689	-15,187	-19,492
<b>EBIT</b>		<b>10,732</b>	<b>34,192</b>	<b>30,586</b>
Other interest and similar income	7	227	542	302
Interest and similar expenses	7	-1,393	-2,815	-5,396
<b>Financial result</b>	7	<b>-1,166</b>	<b>-2,273</b>	<b>-5,094</b>
<b>Result from ordinary business activities</b>		<b>9,566</b>	<b>31,919</b>	<b>25,492</b>
Taxes on income and earnings	8	-2,845	-9,136	-7,345
<b>Consolidated net income</b>		<b>6,721</b>	<b>22,783</b>	<b>18,147</b>
Non-controlling interests in the consolidated net income	9	82	139	171
Shares of the shareholders of AlzChem Group AG in the consolidated net income		<b>6,639</b>	22,644	17,976
<b>Earnings per share in EUR (undiluted and diluted)**</b>	IV	<b>0.65</b>	<b>2.23</b>	<b>1.77</b>

\* Reporting, unaudited; the full-year figures for the period from January 1 to December 31, 2018 are calculated by adding the audited figures for the two short fiscal years from January 1 to June 30, 2018 and from July 1 to December 31, 2018.

\*\* Adjusted comparative figures for the previous year. See explanations in the notes to the consolidated financial statements in „Notes to the Principles and Methods of the Consolidated Financial Statements“.

In order to make the development of the AlzChem Group (AlzChem Group AG) transparent over time and to ensure comparability with the entire calendar year 2018, financial key figures for the income statement, statement of comprehensive income and cash flow statement for the entire year 2018 are

also disclosed and explained additionally and voluntarily. These were calculated by adding the respective financial ratios for the short fiscal year 2018/I and the short fiscal year 2018/II. The period comprising both short fiscal years is also referred to as "calendar year 2018" or "2018".

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

OF ALZCHEM GROUP AG, TROSTBERG, FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in EUR thousand	Notes No.	07/01 - 12/31/2018	01/01 - 12/31/2018*	01/01 - 12/31/2019
<b>Consolidated net income</b>	20	6,721	22,783	18,147
Other income				
Items that are not reclassified to the income statement				
Result from the revaluation of defined benefit plans		-1,650	-498	-22,457
Deferred taxes		462	141	6,289
<b>Total items that are not reclassified to the income statement</b>		<b>-1,188</b>	<b>-357</b>	<b>-16,168</b>
Items that will later be reclassified to the income statement				
Profit from the market valuation of financial assets		0	4	2
Difference from currency translation		83	208	138
Deferred taxes		0	-1	-1
<b>Total items that will later be reclassified to the income statement</b>		<b>83</b>	<b>211</b>	<b>139</b>
<b>Other income</b>	20	<b>-1,105</b>	<b>-146</b>	<b>-16,029</b>
Non-controlling interests in other income		-15	-13	0
Shares of the shareholders of AlzChem Group AG in other income		-1,090	-133	-16,029
<b>Consolidated comprehensive income</b>	20	<b>5,616</b>	<b>22,637</b>	<b>2,118</b>
Non-controlling interests in other consolidated comprehensive income		67	126	171
Shares of the shareholders of AlzChem Group AG in the consolidated comprehensive income		5,549	22,511	1,947

\* Reporting, unaudited

## CONSOLIDATED BALANCE SHEET

OF ALZCHEM GROUP AG, TROSTBERG, AS OF DECEMBER 31, 2019

Assets in EUR thousand	Notes No.	12/31/2018	12/31/2019
<b>Non-current assets</b>			
Intangible assets	10	870	1,541
Property, plant, and equipment	11	144,265	165,702
Lease usage rights	12	0	9,770
Financial assets	13	20	20
Other receivables and other assets	14	891	470
Deferred tax assets	15	24,954	34,477
<b>Total non-current assets</b>		<b>171,000</b>	<b>211,980</b>
<b>Current assets</b>			
Inventories	16	78,856	74,607
Trade receivables	17	34,351	32,501
Other receivables and other assets	14	14,510	14,051
Deferred tax assets	18	1,977	383
Cash and cash equivalents	19	12,857	9,061
<b>Total current assets</b>		<b>142,551</b>	<b>130,603</b>
<b>Total assets</b>		<b>313,551</b>	<b>342,583</b>

Equity and liabilities in EUR thousand	Notes No.	12/31/2018	12/31/2019
<b>Eigenkapital</b>			
<b>Capital and reserves</b>			
Subscribed capital	20	101,763	101,763
Capital reserve adjustment item reverse acquisition	20	-88,128	-88,128
Capital reserve	20	24,981	24,981
Other accumulated equity	20	-32,123	-48,152
Retained earnings	20	60,478	69,294
		<b>66,971</b>	<b>59,758</b>
Non-controlling interests	20	1,420	1,592
<b>Total equity</b>		<b>68,392</b>	<b>61,350</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Provisions for pensions and similar obligations	21	109,960	134,629
Other provisions	22	18,863	22,404
Loan liabilities to banks	23	32,577	50,747
Leasing liabilities	12	0	7,710
Other liabilities	25	513	513
Deferred tax liabilities	15	2,089	4,745
<b>Total non-current liabilities</b>		<b>164,002</b>	<b>220,748</b>
<b>Current liabilities</b>			
Other provisions	22	2,554	1,732
Loan liabilities to banks	23	25,353	11,935
Leasing liabilities	12	0	1,706
Trade payables	24	30,863	24,069
Other liabilities	25	20,859	19,172
Income tax liabilities	26	1,528	1,871
<b>Total current liabilities</b>		<b>81,157</b>	<b>60,485</b>
<b>Total liabilities</b>		<b>245,159</b>	<b>281,233</b>
<b>Total equity and liabilities</b>		<b>313,551</b>	<b>342,583</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

OF ALZCHEM GROUP AG, TROSTBERG, FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in EUR thousand	Notes No.	Subscribed Capital	Capital reserve–adjustment item reverse acquisition	Capital reserve
<b>As of 01/01/2018*</b>		<b>101,763</b>	<b>-88,128</b>	<b>24,981</b>
Effect of change in accounting standards*	IV	0	0	0
Compensation claim non-controlling interests*	9	0	0	0
Dividend*	20	0	0	0
Payment of profit shares to non-controlling interests*	9	0	0	0
<b>Total transactions with shareholders*</b>		<b>0</b>	<b>0</b>	<b>0</b>
Consolidated net income*	20	0	0	0
Other income*	20	0	0	0
<b>Consolidated comprehensive income*</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>As of 12/31/2018*</b>		<b>101,763</b>	<b>-88,128</b>	<b>24,981</b>
<b>As of 07/01/2018</b>		<b>101,763</b>	<b>-88,128</b>	<b>24,981</b>
Dividend	IV	0	0	0
Payment of profit shares to non-controlling interests	9	0	0	0
<b>Total transactions with shareholders</b>		<b>0</b>	<b>0</b>	<b>0</b>
Consolidated net income	20	0	0	0
Other income	20	0	0	0
<b>Consolidated comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>As of 12/31/2018</b>		<b>101,763</b>	<b>-88,128</b>	<b>24,981</b>
<b>As of 12/31/2019</b>		<b>101,763</b>	<b>-88,128</b>	<b>24,981</b>
Dividend	IV	0	0	0
Payment of profit shares to non-controlling interests	9	0	0	0
<b>Total transactions with shareholders</b>		<b>0</b>	<b>0</b>	<b>0</b>
Consolidated net income	20	0	0	0
Other income	20	0	0	0
<b>Consolidated comprehensive income</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>As of 12/31/2019</b>		<b>101,763</b>	<b>-88,128</b>	<b>24,981</b>

\* Reporting, unaudited

Other accumulated equity	Retained earnings	Shares of the shareholders of AlzChem Group AG	Non-controlling interests	Total equity
-31,993	49,047	55,670	2,224	57,894
4	-21	-17	0	-17
0	0	0	-855	-855
0	-11,194	-11,194	0	-11,194
0	0	0	-74	-74
0	-11,194	-11,194	-929	-12,123
0	22,644	22,644	139	22,783
-133	0	-133	-13	-146
-133	22,644	22,511	126	22,637
-32,123	60,478	66,971	1,420	68,392
-31,033	65,032	72,615	1,429	74,044
0	-11,194	-11,194	0	-11,194
0	0	0	-74	-74
0	-11,194	-11,194	-74	-11,268
0	6,639	6,639	82	6,721
-1,090	0	-1,090	-15	-1,105
-1,090	6,639	5,549	67	5,616
-32,123	60,478	66,971	1,420	68,392
-32,123	60,478	66,971	1,420	68,392
0	-9,159	-9,159	0	-9,159
0	0	0	0	0
0	-9,159	-9,159	0	-9,159
0	17,976	17,976	171	18,147
-16,029	0	-16,029	0	-16,029
-16,029	17,976	1,947	171	2,118
-48,152	69,294	59,758	1,592	61,350

## CONSOLIDATED CASH FLOW STATEMENT

OF ALZCHEM GROUP AG, TROSTBERG, FOR THE FISCAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2019

in EUR thousand	Notes No.	07/01 - 12/31/2018	01/01 - 12/31/2018*	01/01 - 12/31/2019
	27			
<b>Consolidated earnings before taxes</b>		<b>9,566</b>	<b>31,919</b>	<b>25,492</b>
Depreciation and amortization on fixed and intangible assets		7,689	15,187	19,492
Decrease in pension provisions		-385	-725	-1,005
Profit from the sale of non-current assets		-6	-9	-45
Other non-cash expenses		625	5,341	6,246
Financial result		1,166	2,273	5,094
Interest received		28	156	133
Interest paid		-144	-476	-1,225
Income taxes paid		-3,917	-8,103	-6,191
Increase (+)/decrease (-) in inventories		-1,466	-5,306	2,431
Decrease in trade receivables and other receivables		17,659	1,738	1,636
Decrease in trade payables, other liabilities and other provisions		-11,634	-7,608	-8,739
Change in other balance sheet items		38	268	313
<b>Cash inflow from operating activities (net cash flow)</b>		<b>19,219</b>	<b>34,655</b>	<b>43,631</b>
Payments for investments in fixed assets		-24,167	-40,128	-41,382
Proceeds from the sale of fixed assets		6	243	55
<b>Cash outflow from investing activities</b>		<b>-24,161</b>	<b>-39,885</b>	<b>-41,327</b>
<b>Free cash flow</b>		<b>-4,942</b>	<b>-5,230</b>	<b>2,304</b>
Proceeds from loans		20,560	20,560	30,102
Proceeds (+)/payments (-) from short-term financing lines		2,585	2,466	-18,166
Payments for the repayment of loan liabilities		-3,885	-6,508	-7,185
Dividend payments		-11,194	-11,194	-9,159
Dividend payment to non-controlling interests		-74	-74	-171
Repayment of leasing liabilities		0	0	-1,594
<b>Cash outflow (-)/inflow (+) from financing activities</b>		<b>7,992</b>	<b>5,250</b>	<b>-6,173</b>
<b>Net decrease (-)/increase (+) in cash and cash equivalents</b>		<b>3,050</b>	<b>20</b>	<b>-3,869</b>
Cash and cash equivalents at the beginning of the period (at the closing rate of the previous year)		9,844	12,802	12,857
Changes due to exchange rate changes		-36	35	73
Cash and cash equivalents at the end of the period		12,857	12,857	9,061
<b>Net decrease (-)/increase (+) in cash and cash equivalents</b>		<b>3,050</b>	<b>20</b>	<b>-3,869</b>

\* Reporting, unaudited



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019

## I. SEGMENT REPORTING

Segment reporting by operating segments for the period from January 1 to December 31, 2019:

in EUR thousand	Specialty Chemicals	Basics & Intermediates	Other & Holding	Consolidation	Group
External sales	200,022	149,408	26,643	-1	376,072
<b>EBITDA</b>	<b>41,684</b>	<b>5,247</b>	<b>4,506</b>	<b>-1,359</b>	<b>50,078</b>
Depreciation and amortization	-6,930	-6,656	-6,246	340	-19,492
<b>EBIT</b>	<b>34,754</b>	<b>-1,409</b>	<b>-1,740</b>	<b>-1,019</b>	<b>30,586</b>
Other interest and similar income					302
Other interest and similar expenses					-5,396
<b>Financial result</b>					<b>-5,094</b>
<b>Result from ordinary business activities</b>					<b>25,492</b>
Inventories as of 12/31/2019:	44,183	30,924	3,586	-4,086	74,607

Segment reporting by operating segments for the period from July 1 to December 31, 2018:

in EUR thousand	Specialty Chemicals	Basics & Intermediates	Other & Holding	Consolidation	Group
External sales	98,680	68,885	12,404	7	179,976
<b>EBITDA</b>	<b>21,916</b>	<b>-2,137</b>	<b>-305</b>	<b>-1,053</b>	<b>18,421</b>
Depreciation and amortization	-2,490	-2,575	-2,804	180	-7,689
<b>EBIT</b>	<b>19,426</b>	<b>-4,712</b>	<b>-3,109</b>	<b>-873</b>	<b>10,732</b>
Other interest and similar income					227
Other interest and similar expenses					-1,393
<b>Financial result</b>					<b>-1,166</b>
<b>Result from ordinary business activities</b>					<b>9,566</b>
Inventories as of 12/31/2018:	49,672	28,125	3,766	-2,707	78,856

Segment reporting by operating segments for the period from January 1 to December 31, 2018 (reporting, unaudited):

in EUR thousand	Specialty Chemicals	Basics & Intermediates	Other & Holding	Consolidation	Group
External sales	209,414	139,966	25,825	12	375,217
<b>EBITDA</b>	<b>50,692</b>	<b>-889</b>	<b>192</b>	<b>-616</b>	<b>49,379</b>
Depreciation and amortization	-5,113	-4,982	-5,418	326	-15,187
<b>EBIT</b>	<b>45,579</b>	<b>-5,871</b>	<b>-5,226</b>	<b>-290</b>	<b>34,192</b>
Other interest and similar income					542
Other interest and similar expenses					-2,815
<b>Financial result</b>					<b>-2,273</b>
<b>Result from ordinary business activities</b>					<b>31,919</b>
<b>Inventories as of 12/31/2018:</b>	<b>49,672</b>	<b>28,125</b>	<b>3,766</b>	<b>-2,707</b>	<b>78,856</b>

Segment reporting by regions:

in EUR thousand	Domestic	Foreign	Group
External sales 01/01 – 12/31/2019:	121.258	254.814	<b>376.072</b>
External sales 01/01 – 12/31/2018*:	160.236	214.981	<b>375.217</b>
External sales 07/01 – 12/31/2018:	79.851	100.125	<b>179.976</b>
Non-current assets as of 12/31/2019:	172.451	4.562	<b>177.013</b>
Non-current assets as of 12/31/2018:	142.078	3.057	<b>145.135</b>

\* Reporting, unaudited

In the fiscal year 2019, no customer contributed at least 10% of total consolidated sales. In prior-year periods, one customer contributed at least 10 % of total consolidated sales in the reporting period. Customer sales amounted to EUR 33,641 thousand (2018 - reporting, unaudited: EUR 65,189 thousand) and are included in the Specialty Chemicals, Basics & Intermediates and Other & Holding segments in all reporting periods.

IFRS 8 requires segmentation into operating segments in accordance with the internal organizational and reporting structure. An operating segment is defined as a component of an entity that engages in business activities from which it may earn sales and incur expenses, whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The responsible corporate body is the Management Board of AlzChem Group AG.

The reportable segments within the AlzChem Group are

- Specialty Chemicals
- Basics & Intermediates
- Other & Holding

The Specialty Chemicals segment generates sales mainly from the sale of specialty chemicals products. The segment is characterized by innovative products that are used in the chemical industry, the food and feeding industry and in the field of renewable energies. The products for customers in the food industry are mainly based on compounds from NCN chemistry (nitrogen-carbon-nitrogen) and are used as the body's own dietary supplement Creapure® in pharmaceuticals and cosmetics. In the animal feeding industry, guanidinoacetic acid is mainly produced under the product name Creamino® as a feed additive. The products that AlzChem sells to customers in the renewable energy sector are used in the manufacture of composites and adhesives as silicon nitride for high-performance ceramics and for the production of photovoltaic

modules in the solar industry. This segment also includes the production of nitroguanidine for use in agrochemical and pharmaceutical active ingredients and as a gas generator in blowing agents.

The Basics & Intermediates segment essentially combines the activities of composites chemistry based on the primary nitrogen-carbon-nitrogen bond (NCN chain). Based on lime, carbon and electricity, this segment produces raw materials for Specialty Chemicals, products for customers in agriculture and metallurgy, and intermediates for further use in the chemical industry. Customers in the agricultural sector use calcium cyanamide products as fertilizers, for example. For customers in metallurgy, this segment produces lime- and carbide-based auxiliaries for hot metal desulphurization as well as products for deoxidizing, desulphurizing and embroidering steel in the secondary metallurgy sector. In addition, the production and sale of guanidine salts as raw materials for agrochemicals and active pharmaceutical ingredients as well as the production of nitriles and guanamines as intermediates for the processing chemical industry are allocated to this segment.

The Other & Holding segment includes all other activities of the Group and holding activities that are not allocated to the other segments. The sales generated here mainly comprise sales of services.

In preparing segment reporting in accordance with the internal management approach, the same accounting principles are applied as in the preparation of the IFRS consolidated financial statements.

External sales represent segment sales with external customers. The sales revenues shown by region refer to the billing address of the customers. EBITDA is the key performance indicator regularly used by management to assess the profitability of the segments. In addition, depreciation, amortization and EBIT are regularly reported to management. The expenses to be taken into account when calculating EBITDA and EBIT are allocated to the individual segments on a costing basis according to the source of the expenses.

Inventories are the key asset figure that is regularly reported to management. Non-current assets, which according to IFRS 8 are to be reported according to specific regions, consist of intangible assets and property, plant and equipment.

The consolidation column shows Group eliminations and Group postings that are only made for the purposes of preparing the consolidated financial statements. The sales revenues reported in this column include currency effects that could not be allocated to the other segments.

## II. CHANGE OF FISCAL YEAR AND RESULTING PRESENTATION IN THE IFRS CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the resolution of the Annual General Meeting on November 22, 2018, the fiscal year of AlzChem Group AG has been the same as the calendar year since January 1, 2019, and all annual financial statements of the AlzChem Group companies are once again in line with a fiscal year end on December 31. The previous year was a short fiscal year for the period from July 1, 2018 to December 31, 2018 (hereinafter also referred to as SFY 2018/II).

The audited prior-year figures stated relate to the previous short fiscal year 2018/II and thus to the period from July 1, 2018 to December 31, 2018, or to the reporting date of December 31, 2018. A comparison of the full-year reporting period with the prior-year figures in these IFRS consolidated financial statements is therefore of only limited informative value.

In order to make the development of the AlzChem Group (AlzChem Group AG) transparent over time and to ensure comparability with the entire calendar year 2018, key financial figures for the income statement, statement of comprehensive income and cash flow statement for the entire year 2018 are also disclosed and explained. These were calculated by adding the respective financial key figures for the short fiscal year 2018/I and the short fiscal year 2018/II. For this purpose, the following additional information was therefore included in

these IFRS consolidated financial statements on a voluntary and informational basis:

- consolidated income statement and consolidated statement of comprehensive income for the period from January 1, 2018 to December 31, 2018 (calculated by adding the two short fiscal years and unaudited)
- consolidated statement of changes in equity for the period from January 1, 2018 to December 31, 2018 (calculated by adding the two short fiscal years and unaudited)
- consolidated cash flow statement for the period from January 1, 2018 to December 31, 2018 (calculated by adding the two short fiscal years and unaudited)
- segment reporting for the period from January 1, 2018 to December 31, 2018 (calculated by adding the two short fiscal years and unaudited).

### III. PRELIMINARY REMARK

The subject of the consolidated financial statements is AlzChem Group AG, a corporation under German law with its registered office at Dr.-Albert-Frank-Str. 32, Trostberg, Germany, and its subsidiaries. The competent register court is located in Traunstein (HRB 26592). AlzChem Group AG is the parent company of the AlzChem Group and prepares these IFRS consolidated financial statements.

The consolidated financial statements were prepared by the Management Board on February 28, 2020.

The companies of the AlzChem Group develop, produce and trade in chemical products of all kinds and provide services, including as chemical park operators. From the basic raw materials lime, carbon and electricity, versatile products with a typical nitrogen-carbon-nitrogen compound are produced in very high quality in further production steps at the Trostberg, Schalchen, Hart, Waldkraiburg and Sundsvall (Sweden) sites. In addition, smaller sales units are located in Atlanta (USA) and Shanghai (China).

The company's shares are traded in the sub-segment of the regulated market with additional post-admission obligations

(Prime Standard) of the Frankfurt Stock Exchange (WKN A2Y NT3). Due to the shareholder structure, there is no parent company within the meaning of IAS 1.138. The current shareholder structure at the balance sheet date can be found in the combined management report of the company and is continuously updated on the AlzChem website.

By shareholder resolution of November 4, 2019, NIGU Chemie GmbH, AlzChem Nutrition GmbH and AlzChem International GmbH were released from the obligation to disclose the annual financial statements and management report for fiscal year 2019 in accordance with sec. 264 para. 3 HGB. The exemption resolutions are published in the Federal Gazette by the subsidiaries NIGU Chemie GmbH, AlzChem Nutrition GmbH and AlzChem International GmbH.

### IV. NOTES TO THE PRINCIPLES AND METHODS OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### ACCOUNTING PRINCIPLES

The consolidated financial statements of AlzChem Group AG were prepared in accordance with the regulations of the International Accounting Standards Board (IASB), London, in compliance with the International Financial Reporting Standards (IFRS), as applicable in the EU. The interpretations of the IFRS Interpretations Committee (formerly IFRIC and SIC) were applied. The consolidated financial statements comply with the European Union's directives on consolidated accounting (Directive 83/349/EEC). In order to achieve equivalence with consolidated financial statements prepared in accordance with the German Commercial Code (HGB), all disclosures and explanations going beyond the requirements of the IASB have been made in accordance with sec. 315e HGB. The present version of the consolidated financial statements complies with the provisions of sec. 315e HGB; this provision forms the legal basis for consolidated accounting in accordance with international standards in Germany together with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002, concerning the application of international accounting standards.

Those provisions of the International Financial Reporting Standards (IFRS), as adopted by the EU, were applied that were mandatory at the balance sheet date of December 31, 2019. Early application of standards not yet mandatory as of December 31, 2019 was waived. This procedure results in the presentation of a true and fair view of the net assets, financial position and results of operations of the AlzChem Group.

The consolidated financial statements are presented in euro (EUR), the functional currency of the parent company AlzChem Group AG. For reasons of clarity, the figures in the consolidated financial statements are given in thousands of euro (EUR thousand) unless otherwise indicated. All figures have been rounded up or down to the nearest thousand euro in accordance with commercial rounding, so that individual figures do not add up exactly to the stated total.

#### STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT WERE APPLIED FOR THE FIRST TIME IN THE FISCAL YEAR 2019

As of the beginning of the fiscal year 2019, the following standards and interpretations revised or newly issued by the IASB had to be newly applied:

##### IFRS 16 Leases

IFRS 16 replaces the previous standard IAS 17, which means that assets for the usage rights obtained and liabilities for the payment obligations entered into must now generally be capitalized in the lessee's balance sheet for all leases. Previously, future payment obligations under operating leases were only disclosed in the notes as part of other financial obligations. Exceptions to this rule apply to short-term leases (up to twelve months' term) and leases of assets of lower value. By exercising an option, these may continue to be recognized systematically as an expense over the lease term. The lessee recognizes the leasing liabilities at the present value of the leasing payments still to be made. On initial recognition, the usage right to be capitalized corresponds to the present value of the leasing payments still to be made plus initial direct costs, prepayments and dismantling costs and less incentive payments received. The leasing liability is subsequently compounded using the effective interest method and reduced

by the leasing payments. Consequently, the leasing payments are now divided into an interest portion and a repayment portion. The right of use is amortized on a scheduled basis over the term of the lease.

The rules for accounting by the lessor are similar to the previous provisions of IAS 17. IFRS 16 also contains a number of other new rules on the definition of a lease, on reporting and disclosures in the notes and on sale and leaseback transactions. The first-time application of IFRS 16 had a significant impact on the balance sheet of the AlzChem Group. Leases as lessee exist mainly for motor vehicles, forklifts, railway wagons and software.

The AlzChem Group chose the simplified transition method for first-time application and did not apply IFRS 16 retrospectively in its entirety. Accordingly, in order to determine the corresponding leasing liabilities for the first time, the leasing payments outstanding as of January 1, 2019 were discounted at the current marginal interest rate and recognized as liabilities. The associated usage rights were capitalized in the same amount, but reduced by any prepaid or deferred leasing payments.

The lease usage rights and leasing liabilities are shown as separate items in the balance sheet. The initial recognition resulted in the capitalization of lease usage rights in the amount of EUR 2,941,000 and the recognition of leasing liabilities in the same amount as of January 1, 2019. Deferred tax assets and liabilities of EUR 764,000 were recognized on these amounts. In addition, a lease usage right was recognized in the amount of EUR 492 thousand, which was recognized as other non-current asset in the same amount as of December 31, 2018.

The relief option was applied to short-term leases (up to twelve months' term) and leases for assets of lower value. These agreements are not recognized as usage rights. Smaller IT equipment, such as printers and photocopiers, which are mainly workplace-related, was classified as low-value assets.

The provisions of IFRS 16 were not applied to leases of intangible assets such as software leases.

If the contracts contain a non-leasing component in addition to a leasing component, these components were considered separately if a separation results directly from the contract. If the contract does not contain a separation of these components, the non-leasing components are treated as the leasing components.

The interest rate used to measure the usage rights and leasing liabilities is the marginal interest rate, unless an interest rate is implicit in the lease. To determine the marginal interest rate

on debt, reference interest rates are derived from risk-free interest rates with appropriate maturities, increased by credit risk premiums and adjusted by a country risk premium.

Based on the rental and leasing obligations from operating leases stated in Note 30 Other financial obligations in the consolidated financial statements as of December 31, 2018, the following reconciliation to the value of the lease obligations recognized for the first time as of January 1, 2019 results:

<b>Operating lease obligations as of 12/31/2018</b>	<b>6,428</b>
Facilitation of application for short-term leases and leases of low-value assets	-1,046
Change due to redefinition of leases and leasing payments	-1,019
Reassessment of extension and termination options	-1,118
Operating lease obligations from contracts not yet commenced	-230
Undiscounted leasing liabilities as of 01/01/2019	3,015
Discounting (weighted average interest rate as of 01/01: 2.06%)	-74
<b>Total recorded leasing liabilities as of 01/01/2019</b>	<b>2,941</b>

#### Effects on the balance sheet, income statement, cash flow statement and segment reporting

The following new items were added to the consolidated balance sheet of the AlzChem Group due to the first-time application of IFRS 16:

- lease usage rights
- current leasing liabilities

The item 'long-term leasing liabilities' was merely renamed and included the liabilities from finance leases until December 31, 2018.

No new items were necessary in the consolidated income statement.

In the consolidated cash flow statement, the 'repayment of leasing liabilities' was added as a separate line within the cash outflow from financing activities.

The following table shows the effects of the first-time application of IFRS 16 on the individual items in the fiscal year 2019:

<b>In EUR thousand</b>	<b>01/01/2019</b>	<b>01/01 – 12/31/2019 or 12/31/2019</b>
Lease usage rights	3,433	9,770
Other receivables and other assets (current)	-492	-
Non-current leasing liabilities	1,401	7,710
Current leasing liabilities	1,537	1,706
Deferred tax assets	764	2,608
Deferred tax liabilities	764	2,605
Other operating expenses	-	-1,715
Amortization	-	1,679
Interest and similar expenses	-	55
Taxes on income and earnings	-	3
Cash inflow from operating activities (net cash flow)	-	+1,594
Cash outflow from financing activities	-	-1,594

The first-time application of IFRS 16 had no material impact on earnings per share.

In segment reporting, non-current segment assets changed as follows due to the first-time recognition of lease usage rights:

<b>In EUR thousand</b>	<b>01/01/2019</b>	<b>12/31/2019</b>
Non-current assets - domestic	2,683	9,283
Non-current assets - abroad	748	487

The first-time application of IFRS 16 to agreements in which AlzChem is the lessor did not result in any significant effects.

#### [Amendment to IAS 28 Investments in Associates and Joint Ventures](#)

The amendment to IAS 28 clarifies that the requirements of IFRS 9 Financial Instruments apply to long-term investments in an associated company or joint venture that form part of a net investment in that associated company or joint venture but are not accounted for using the equity method. The first-time application had no effect on the net assets, financial position and results of operations of the AlzChem Group.

#### [Amendments to IAS 19 Employee Benefits](#)

The amendments concern the accounting treatment of plan amendments, reductions or settlements of a defined benefit plan. In these cases, the current service cost and net interest for the remaining fiscal year must be recalculated using current actuarial assumptions. In addition, a clarification has been included on how a plan amendment, curtailment or settlement affects the requirements for the asset ceiling. The first-time application had no effect on the net assets, financial position and results of operations of the AlzChem Group.

#### [Amendments to IFRS 9 Financial Instruments](#)

The amendments relate to the accounting of financial assets for which a compensation payment to the party giving notice may become due in the event of premature termination. The first-time application had no effect on the net assets, financial position and results of operations of the AlzChem Group.

### IFRIC 23 Uncertainty in Income Tax Treatment

IFRIC 23 clarifies the requirements for the recognition and measurement of uncertain income tax items. When assessing uncertainty, it is necessary to assess whether it is likely that the tax jurisdiction will accept the income tax treatment. The first-time application had no effect on the net assets, financial position and results of operations of the AlzChem Group.

### Annual improvement cycle 2015 - 2017

The annual improvement cycle has resulted in clarifications to some standards already published (IFRS 3, IAS 12, IAS 23). The first-time application had no effect on the net assets, financial position and results of operations of the AlzChem Group.

### STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET MANDATORY

The following standards, amendments to standards and interpretations have already been adopted, but their application is only mandatory for reporting periods beginning on or after January 1, 2020. The AlzChem Group will apply them from January 1, 2020 or a date possibly prescribed later and has estimated the probable effects on the net assets, financial position and results of operations of the individual standards, amendments to standards and interpretations, insofar as this estimation was already possible.

Standards	Change concerns	Mandatory from	Adoption by EU Commission
IAS 1/IAS 8	Definition of materiality of financial statement information	01/01/2020	Yes
IFRS 9/IAS 39/ IFRS 7	Interest rate benchmark reform	01/01/2020	Yes
IFRS 3	Definition of a business operation	01/01/2020	No
IFRS 17	Insurance contracts	01/01/2021	No
IAS 1	Classification of current and non-current liabilities	01/01/2022	No
IFRS 10/IAS 28	Sale of assets of an investor to or contribution to its associated company or joint venture	Undetermined	No

Due to an ongoing research project, the mandatory first-time adoption of the amendments to IFRS 10 and IAS 28 regarding the sale of assets by an investor to or contribution to an associated company or joint venture was postponed indefinitely by the standard setter. Therefore, the adoption into European law was also postponed indefinitely.

The amendments to IAS 1 and 8 clarify the definition of the term 'material' within IFRS. Information is material if it is reasonably expected that its omission, misstatement or obfuscation could influence the decisions of the primary users of multi-purpose financial statements that they make on the basis of such financial statements that provide financial information about a particular entity. The AlzChem Group does not expect the amended definition to have a material impact on its net assets, financial position and results of operations.

The amendments to IFRS 9/IAS 39/IFRS 7 from the interest rate benchmark reform deal with possible effects of the IBOR reform on the accounting treatment of certain hedging transactions. Certain hedge accounting rules have been amended so that companies apply these hedge accounting rules on the assumption that the reference interest rate on which the hedged cash flows and the cash flows from the hedging instrument are based is not changed by the reform of the reference interest rate. These changes are mandatory for all hedging relationships affected by the reform of the reference interest rate. The AlzChem Group does not expect the change to have a material impact on the net assets, financial position and results of operations.

The amendments to IFRS 3 clarify the definition of a business and aim to resolve the inconsistencies that arise when an entity determines whether it has acquired a business or a group of assets. The Group does not expect the first-time application of these amendments to have a material impact on its net assets, financial position and results of operations.

IFRS 17 Insurance Contracts is not relevant for the AlzChem Group.

The other amendments to IAS 1 clarify that the classification of liabilities as current or non-current must be based on the rights that exist on the balance sheet date and that the classification does not depend on expectations regarding whether the company will exercise its right to defer the settlement of an obligation. The clarification will have no effect on the classification of the maturities of liabilities of the AlzChem Group.

The accounting and valuation methods described below were applied in the preparation of the consolidated financial statements.

#### SCOPE OF CONSOLIDATION/SHAREHOLDINGS

In addition to AlzChem Group AG, the consolidated financial statements include the following six domestic and four foreign subsidiaries in which AlzChem Group AG directly or indirectly holds the majority of voting rights:

Name, registered office	Share in capital in %	Currency	Subscribed capital in local currency
AlzChem Trostberg GmbH, Trostberg, Germany (formerly AlzChem AG)	100	EUR	EUR 11,000 thousand
Nigu Chemie GmbH, Waldkraiburg, Germany	100	EUR	EUR 1,410 thousand
AlzChem International GmbH, Trostberg, Germany	94	EUR	EUR 1,000 thousand
AlzChem Stahltechnik GmbH, Trostberg, Germany	100	EUR	EUR 25 thousand
AlzChem Nutrition GmbH, Trostberg, Germany	100	EUR	EUR 25 thousand
AlzChem Netz GmbH, Trostberg, Germany	100	EUR	EUR 300 thousand
AlzChem LLC, Atlanta, USA	100	USD	USD 0 thousand
AlzChem Shanghai Co. Ltd., Shanghai, China	100	CNY	CNY 3,670 thousand
Nordic Carbide AB, Sundsvall, Sweden	100	SEK	SEK 50 thousand
Edelife Distributing LLC, Atlanta, USA	100	USD	USD 25 thousand

In August 2019, Edelife Distributing LLC was founded with headquarters in Atlanta (USA). The company assumes the sales activities for dietary supplements in the USA.

#### Principles of consolidation

Subsidiaries are all companies that AlzChem Group AG directly or indirectly controls. AlzChem Group AG controls a company if it is exposed to fluctuating returns from its involvement in the company or has rights to such returns and can influence the returns by means of its power of control over the company. Subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group (full consolidation). They are deconsolidated from the date on which control ends.

The financial statements of domestic and foreign subsidiaries included in the consolidation are prepared in accordance with IFRS 10 using uniform accounting policies.

Intra-group profits and losses, sales revenues, expenses and income as well as receivables and liabilities between consolidated subsidiaries are eliminated. Where the conditions for the consolidation of third-party liabilities are met, this option is exercised. Intercompany profits are eliminated. The tax deferrals required by IAS 12 (Income Taxes) are made for temporary differences arising from consolidation measures.

#### Capital consolidation

Capital consolidation of subsidiaries is performed in accordance with IFRS 10 (Consolidated Financial Statements) in conjunction with IFRS 3 (Business Combinations) by offsetting the carrying amount of the investment against the revalued equity of the subsidiary at the time of acquisition (purchase method) or against the statutory equity in the case of newly established companies.

#### Company acquisitions/reversed company acquisition

The AlzChem Group applies the purchase method of accounting for business combinations. The consideration transferred corresponds to the fair value of the assets transferred, the liabilities assumed and the equity shares issued at the time of acquisition. Incidental acquisition costs are recognized as expenses. Identifiable assets, liabilities and contingent liabilities arising from the business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the balance of the net assets measured at fair value at the acquisition date is recognized as goodwill. If the consideration transferred is less than the acquired subsidiary's net assets measured at fair value, the difference is recognized directly in the income statement after a further review.

The historical contribution of AlzChem Trostberg GmbH including its subsidiaries to AlzChem Group AG was identified in accordance with IFRIC Agenda Decision March 2013 as an equity transaction of AlzChem Trostberg GmbH, which was to be accounted for as a share-based payment in accordance with the provisions of IFRS 2. This transaction was then accounted for in accordance with the accounting requirements for a reverse business combination under IFRS 3 B19 - B27, with the only exception that the transaction was not allowed to give rise to goodwill, but that such a difference was to be recognized immediately as an expense in accordance with IFRS 2.8. Consequently, the IFRS consolidated financial statements of AlzChem Group AG represent a continuation of the IFRS consolidated financial statements of AlzChem Trostberg GmbH since the date of the contribution in October 2017.

### Currency translation

The preparation currency and at the same time the functional currency of the AlzChem Group is the euro (EUR).

In the individual financial statements of the subsidiaries that are maintained in euro, business transactions in foreign currencies are measured at the exchange rate at the time of

initial booking. Exchange rate gains and losses arising from the translation of monetary assets and liabilities up to the balance sheet date are taken into account. Gains and losses from exchange rate changes are recognized in other operating income or expenses.

The financial statements of the foreign Group companies are translated into the reporting currency of the AlzChem Group. Their functional currency is the respective national currency. The functional and presentation currency of the parent company and therefore of the consolidated financial statements is the euro. Assets and liabilities of foreign Group companies whose functional currency is not the euro are translated by AlzChem at the closing rate (average spot exchange rate) at the end of the period. Expenses, income and the result, however, are translated at average rates. All resulting translation differences are recognized as a separate item in equity. The items in the consolidated cash flow statement are translated at average rates, while cash and cash equivalents are translated at the closing rate (average spot exchange rate) at the end of the period.

The exchange rates of major currencies used for currency translation are shown in the following table:

		Closing rate*		Average rate*	
		12/31/2018	12/31/2019	07/01 - 12/31/2018	01/01 - 12/31/2019
USA	USD	1,145	1,123	1,1522	1,1196
China	CNY	7,8751	7,8205	7,9048	7,7339
Sweden	SEK	10,2548	10,4468	10,3616	10,5867

\* Equivalent for EUR 1

## V. ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods were applied consistently.

### NON-CURRENT ASSETS AND DEPRECIATION

#### Intangible assets

Acquired intangible assets are recognized at acquisition costs.

All acquired intangible assets with a determinable useful life are subject to scheduled straight-line amortization. Scheduled amortization is based on the following useful lives, which are uniform throughout the Group:

- Concessions, rights, licenses: 3 to 5 years or, if applicable, shorter contract period
- Software: 3 to 5 years

Costs associated with the operation or maintenance of software are expensed as incurred. However, there were no internally generated intangible assets in the reporting period. Financing costs are capitalized as part of acquisition or production costs if the conditions for capitalization are met.

If an impairment in value is identified that exceeds regular amortization, the asset is written down to the recoverable amount.

There were no intangible assets with indefinite useful lives in the reporting period.

#### Property, plant and equipment

Property, plant and equipment used in business operations for more than one year are measured at acquisition or production costs less scheduled depreciation. Material components of property, plant and equipment are recognized and depreciated

individually. Subsequent acquisition costs are only taken into account as part of the acquisition costs of the asset if it is probable that future economic benefits will flow to the Group and the costs of the asset can be reliably determined. All other repairs and maintenance are recognized as expenses in the income statement in the fiscal year in which they are incurred. Financing costs are capitalized as a component of acquisition or production costs if the conditions for capitalization are met.

Land is not depreciated. All other assets are depreciated using the straight-line method, with acquisition costs being depreciated as follows over the expected useful life of the assets

- Buildings: 25 to 40 years
- Operating facilities, technical equipment and machinery: 5 to 25 years
- Operating and office equipment: 3 to 10 years
- Vehicles: 4 to 6 years.

The residual carrying amount and economic useful lives are reviewed at each balance sheet date and adjusted if necessary. If the carrying amount of an asset exceeds its estimated recoverable amount, it is immediately written down to the latter. Gains and losses from the disposal of property, plant and equipment are calculated as the difference between the proceeds of disposal and the residual carrying amount and recognized in profit or loss.

#### JOINTLY MANAGED ASSETS

In the case of assets that are jointly managed with a non-Group company, the AlzChem Group recognizes its share of these assets within property, plant and equipment, even if the AlzChem Group is not the legal owner of the jointly managed asset.

## BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. In determining the borrowing costs to be capitalized, any investment income from the temporary investment of these funds is deducted. During the period under review, there was no additional capitalization of borrowing costs as the cost of property, plant and equipment. Other borrowing costs are recognized as an expense in the period in which they are incurred.

## RESEARCH AND DEVELOPMENT EXPENSES

The AlzChem Group is involved in various research and development activities with the primary goal of developing new products or processes or improving existing products or processes. Expenses on research activities is recognized as an expense in the period in which it is incurred. A review of the six criteria specified in IAS 38 for the existence of an obligation to capitalize development costs showed that not all criteria were met as of the balance sheet date. As a result, development costs are also recognized as an expense in the income statement in the period in which they are incurred. However, the AlzChem Group continuously checks the existence of the criteria for new projects. If it is determined that the criteria for capitalizing development costs are met for individual projects, the costs incurred are capitalized.

## LEASING

Until December 31, 2018, lease accounting in accordance with IAS 17 was as follows:

Leases are classified as finance leases if the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the Group as lessee. All other leases are classified as operating leases.

Non-current assets that have been rented or leased and where the economic ownership lies with the respective Group company (finance lease) are capitalized at the present value of the minimum leasing payments or the lower fair value in accordance with the provisions of IAS 17 (Leases) and depreciated over their useful lives. If it is not sufficiently certain at the beginning of the lease that ownership will pass to the Group as lessee, the asset is depreciated over the shorter of the lease term or its useful life.

The corresponding liability in the amount of the present value of the minimum leasing payments due to the lessor is reported in the balance sheet as a finance lease obligation under finance leasing liabilities. The leasing payments are apportioned between the finance charge and the reduction of the outstanding liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leasing payments within an operating lease are recognized as an expense in the income statement on a straight-line basis over the term of the lease.

If the AlzChem Group acts as lessor, a leasing claim against the lessee is recognized in the balance sheet in the case of a finance lease instead of non-current assets. The amount of

the lease receivable corresponds to the net investment value of the leased asset at the time of acquisition. Income from finance leases is distributed over the periods in such a way that a constant periodic interest rate on the outstanding net investment value of the leases is shown. Rental income from operating leases is recognized in the income statement on a straight-line basis over the term of the corresponding lease. In the reporting period, no leases were classified as finance leases in which the AlzChem Group acts as lessor.

Since January 1, 2019, lease accounting in accordance with IFRS 16 has been carried out as follows:

With the introduction of IFRS 16 Leases as of January 1, 2019, the definition of leases was changed. A lease is deemed to exist if the lessor contractually grants the lessee the right to control an identified asset for a specified period of time and the lessor receives consideration from the lessee in return.

With the introduction of IFRS 16, assets for the usage rights obtained and liabilities for the payment obligations entered into must now generally be capitalized in the lessee's balance sheet for all leases. The AlzChem Group does not apply this general rule to short-term leases (up to twelve months' term), leases for assets with a lower value and leases for intangible assets. In exercising an option, these continue to be recognized systematically as expenses over the term of the lease agreement. Smaller IT equipment, such as printers and photocopiers, which are mainly workplace-related, is classified as low-value assets.

As a lessee, AlzChem recognizes the leasing liabilities at the present value of the leasing payments still to be made. The following leasing payments are included in the calculation of the present value:

- Fixed payments (including de facto fixed payments, less any leasing incentives to be received).
- Variable leasing payments linked to an index or (interest) rate.
- Probable payments to be made under residual value guarantees.
- Probable payments to be made when a purchase option is exercised.
- Probable payments to be made in the event of premature termination.

When determining the term of leases, all facts and circumstances are taken into account that provide an economic incentive to exercise renewal options or not to exercise termination options. Changes to the term of the lease resulting from the exercise of renewal or termination options are only included in the term of the lease if it is sufficiently certain that a termination option will be renewed or not exercised.

On initial recognition, the usage right to be capitalized corresponds to the present value of the leasing payments still to be made plus initial direct costs, prepayments and dismantling costs and less incentive payments received.

The leasing liability is subsequently compounded using the effective interest method and reduced by the leasing payments. The actual leasing payments are apportioned between the finance charge and the reduction of the leasing liability. The usage right is amortized on a straight-line basis over the shorter of the useful life and the lease term.

In the balance sheet, the lease usage rights are shown as a separate item from property, plant and equipment.

In determining the leasing payments, non-lease components are not included in the determination of leasing liabilities if a separation arises directly from the contract. If the contract does not contain a separation of these components, the non-leasing components are treated as the leasing components.

The interest rate used to value the usage rights and leasing liabilities is the marginal interest rate, unless an interest rate is implicit in the lease. To determine the marginal interest rate on debt, reference interest rates are derived from risk-free interest rates with appropriate maturities, increased by credit risk premiums and adjusted by a country risk premium.

The introduction of IFRS 16 has not significantly changed the accounting policies for leases of a lessor. The lessor continues to distinguish each lease as a finance or rental lease. Leases in which AlzChem, as lessor, has transferred to the lessee all material opportunities and risks from the use of the leased asset are treated as finance leases within the meaning of IFRS 16. In these cases, the leased asset is recognized in the balance sheet of the lessee, i.e. not in the consolidated balance sheet. The assets from a finance lease are presented as receivables in the amount of the net investment in the lease. Leases in which the AlzChem Group as lessor has not transferred all material risks and rewards are treated as rental leases (operating leases) within the meaning of IFRS 16. Leasing payments for operating leases are recognized in the income statement on a straight-line basis over the term of the lease as part of sales revenue (as part of site services) and as other operating income.

#### IMPAIRMENT OF NON-MONETARY ASSETS

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the impairment test, assets are grouped together at the lowest level for which cash flows can be separately identified (cash-generating units).

If an impairment loss subsequently reverses, the carrying amount of the asset (the cash-generating unit) is increased to the revised estimate of its recoverable amount. The increase in the carrying amount is limited to the amortized value that would have been determined if no impairment loss had been recognized for the asset (the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### PUBLIC GRANTS AND SUBSIDIES

Government grants are recognized at fair value if it can be assumed with a high degree of certainty that the grant will be received and the AlzChem Group meets the necessary conditions for receiving the grants. Government grants for costs are recognized over the period in which the corresponding costs for which they were granted are incurred.

#### CURRENT INCOME TAXES/INCOME TAX LIABILITIES

The applicable income tax rate is calculated on the basis of the tax laws in force on the balance sheet date for the countries in which the company's subsidiaries operate.

Current taxes in Germany are calculated on the basis of a uniform corporate income tax rate of 15.0% on distributed and retained profits and a solidarity surcharge of 5.5% thereon. In addition to corporate income tax, trade tax is levied on profits generated in Germany. The trade tax burden is between 12.0% and 13.0%.

The profits generated by foreign subsidiaries are calculated on the basis of the respective national tax law and taxed at the applicable regional tax rate. The applicable country-specific income tax rate is between 5.0% and 28.8%.

On the basis of these tax regulations, expected tax payments are taken into account through the appropriate and appropriate formation of income tax liabilities. The management of the AlzChem Group regularly reviews tax returns, particularly with regard to matters that are open to interpretation and, if appropriate, forms income tax liabilities based on the amounts expected to be paid to the respective tax authorities.

## DEFERRED TAXES

In accordance with IAS 12, deferred taxes are recognized for all temporary differences between the tax base of the assets/liabilities and their carrying amounts in the IFRS consolidated financial statements (so-called liability method). Deferred taxes are measured using the tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilized. If the future tax benefit from loss carryforwards can be used with sufficient certainty in future periods, deferred tax assets are recognized for this purpose.

According to IAS 12.39, deferred taxes on temporary differences in connection with shares in subsidiaries ("outside basis differences") are only to be recognized in the consolidated financial statements if the following criteria are not met:

- the parent company, the shareholder or the partner company is able to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

As a rule, the temporary difference is not reversed until the company is sold. The AlzChem Group does not currently plan to sell any companies, but would be able to control the timing of the sale. No deferred taxes are recognized in the consolidated financial statements of the AlzChem Group for temporary differences in connection with investments in subsidiaries.

Deferred taxes relating to items recognized directly in equity are also recognized in equity. Changes in all other deferred tax assets and liabilities are recognized in the income statement. Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and if the deferred taxes relate to the same tax authority.

## INVENTORIES

Inventories include raw materials, consumables and supplies, work in progress, finished goods and products, finished goods and products and prepayments on inventories. Inventories are stated at the lower of acquisition or production costs and net realizable value. Net realizable value is the estimated selling price achievable in the ordinary course of business less the necessary variable selling expenses. In addition to direct material and labor costs, production costs also include all directly attributable costs and appropriate portions of the necessary overheads and amortization. Acquisition or production costs are determined on the basis of the average cost method. If necessary, write-downs are made for overreach, obsolescence and reduced marketability. Borrowing costs were not included in the acquisition or production costs, as there were no qualifying assets.

## FINANCIAL INSTRUMENTS

Within the AlzChem Group, the following categories of financial assets have been used:

- valued at amortized cost (AC)
- mandatory measured at fair value through other comprehensive income (FVOCI)
- at fair value through profit or loss (FVTPL)

Financial liabilities include the following categories:

- valued at amortized cost.

## FINANCIAL ASSETS

The shares in other investments reported under non-current financial assets belong without exception to the "at fair value through profit or loss" measurement category. No use was made of the option of recognizing investments at fair value through other comprehensive income without subsequent recycling. The respective market price is used to determine the fair value of publicly listed financial assets. If there is no active market, fair value is determined by using the most recent market transactions or a valuation method (such as the discounted cash flow method). If the input parameters for such a valuation cannot be reliably determined with an effort that is appropriate for the materiality of the investment, the AlzChem Group assumes that the acquisition costs represent the best possible estimate of the current fair value.

### Derivative financial instruments

There were no derivative financial instruments at both reporting dates.

## RECEIVABLES AND OTHER ASSETS

### Trade receivables

Trade receivables are initially recognized at fair value. The subsequent evaluation depends on the measurement category. In the AlzChem Group, a portion of the receivables is attributable to a mixed business model due to regular factoring sales of receivables and is therefore classified as "mandatory measured at fair value through other comprehensive income". Trade receivables of companies without factoring activities are classified as "at amortized cost".

In both cases, valuation allowances based on the expected loss within the total term of the receivable are recognized in profit or loss. If there is no objective evidence of actual default

by the debtor, this value adjustment is corrected again via other comprehensive income for the receivables "mandatory measured at fair value through other comprehensive income", as it is assumed that these expected losses have no additional impact on the fair value of the receivables and were already "priced in" when the receivables were received.

The calculation of expected losses is based on historical data of the AlzChem Group, where the expected default rates and recovery rates are determined depending on the age of the receivables. Where justified by the current economic outlook or other macroeconomic parameters, the historically determined default rates are adjusted accordingly. As of the reporting date, the AlzChem Group has not identified any factors that justify an adjustment of the historical rates. The corresponding rates are then applied to the receivables not covered by trade credit insurance without individually identified defaults. In accordance with the contractual provisions for factoring, the Group classifies receivables as defaulted if they have not been serviced 120 days after they are due.

### Other receivables and other assets

Other receivables and other assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method - in the case of long-term receivables - and deducting impairment losses. Where risks exist, these are taken into account by appropriate value adjustments. The same processes and guidelines are applied here as for the calculation of value adjustments of trade receivables.

Other receivables and other assets are allocated as financial assets to the category "at amortized cost".

For the other receivables and other assets, a risk provision is determined upon addition in the amount of the expected loss within one year (risk provisioning level 1). If there has been

a significant deterioration in the debtor's creditworthiness since the receivables were acquired, the calculation horizon is extended to the entire term of the receivable (risk provisioning level 2). If an actual default of the debtor is determined, a reclassification is made to risk provisioning level 3. Here too, risk provisioning is determined on the basis of expected losses over the lifetime of the receivable. In contrast to the previous levels, however, any interest income is no longer calculated on the gross carrying amount, but on the basis of the net carrying amount after impairment using the effective interest rate.

A significant increase in the credit risk is present at the latest when payment is 30 days late. An earlier reclassification based on knowledge gained from the credit management process is possible in principle, but of little practical relevance for the AlzChem Group. Default in the area of other receivables and other assets is assumed in the event of payment arrears of 90 days or more or if payment is no longer considered probable due to other events (e.g. the opening of insolvency proceedings). Due to the low volume and lack of historical data for defaults of other financial receivables in the AlzChem Group, the actual expected losses are determined based on weighted expert estimates. Additional external data would be used if the materiality of the items were to change.

Financial assets are generally recognized on the trade date. No financial assets were offset against financial liabilities in the reporting period and there are no net settlement agreements that cannot be offset in the balance sheet.

## FACTORING

Two companies of the AlzChem Group transfer their customer receivables partly to financing companies (buyers of receivables). In accordance with IFRS 9, sold receivables are derecognized in full when substantially all the related opportunities and risks have been transferred from the selling company to the buyer of the receivables or, if

the opportunities and risks have essentially neither been transferred nor retained, control of the receivables has been transferred. Unless the opportunities and risks have essentially neither been transferred nor retained, but the power of control over the receivables remains with the selling company, this accounts for a continuing involvement. Contractual agreements transfer the risk of the customer's insolvency (del credere) to the buyer of the receivables.

As of the balance sheet date, an analysis is made as to whether the sold receivables portfolio is expected to result in a full or partial disposal and thus the transfer of opportunities and risks from the sold receivables. If the analysis shows that AlzChem still bears part of the late payment risk from these receivables, only a partial derecognition of the sold receivables takes place on the balance sheet date in accordance with the requirements of IFRS 9, whereby the portion remaining as "continuing involvement" is small compared to the total amount of the receivables sold. This remaining exposure is offset by a corresponding liability, which is reported under other current liabilities. At all reporting dates presented, the analysis showed that it was a complete exit and therefore had no continuing involvement.

The purchase price deductions from factoring initially retained as collateral by the financing company are reported separately under other assets. They become due as soon as the customer's payment has been received.

In addition, lock-in deductions for the risk of sales deductions are agreed with the buyer of the receivables, which are also reported under other assets. The retention amounts become fully due after a blocking period, provided that no friction has occurred in the payment flows.

The payment of the remainder of the purchase price by the buyer of the receivables takes place either upon receipt of payment by the buyer of the receivables or against interest

at the request of the transferring company. The outstanding portion of the purchase price receivable is reported under current other assets.

Interest expenses resulting from the sale of receivables are recognized in the financial result. Management fees are reported under other operating expenses.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, demand deposits and other short-term highly liquid financial assets with an original term of no more than three months, as well as current account credit balances. Current account overdrafts taken up are shown as liabilities to banks under current financial liabilities.

For cash and cash equivalents, the same principles apply to determining valuation allowances as already described for the other financial receivables. As cash and cash equivalents are by definition only high-quality and short-term investments, the low-credit-risk exception applies, which makes the examination of a transfer of risk prevention level 1 to risk prevention level 2 obsolete. Due to the short original maturity of less than 3 months, this could only result in a changed presentation, but not in a changed amount of the value adjustment. Due to the short maturities and the high credit ratings of the banks concerned, the imputed value adjustment requirement is negligible and of subordinate importance for the AlzChem Group.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The determination of the fair values of financial instruments that were recorded in the balance sheet at their fair value was based on the data or input parameters used for the valuation according to a three-level hierarchy according to the requirements of IFRS 13:

- Step 1: stock market or market price in an active market for similar financial instruments.
- Step 2: input parameters other than quoted prices included in Level 1 that are directly or indirectly available to the financial instruments.
- Step 3: input parameters for the financial instruments are not available on the market.

### EQUITY

Equity consists of subscribed capital, capital reserves, other accumulated equity and retained earnings. The subscribed capital represents the nominal capital of the parent company. The capital reserves show all amounts of equity that are not externally contributed to the company and that are not subscribed capital. For an explanation of the capital reserve adjustment item reverse acquisition, please refer to note 20. Minority interests in the company's equity are reported as non-controlling interests.

## OTHER PROVISIONS

Provisions are recognized if the AlzChem Group has a present legal or constructive obligation resulting from a past event, it is probable that the settlement of the obligation will result in a charge to the assets and the amount of the provision can be reliably determined. If there are a number of similar obligations, the likelihood of asset encumbrance is determined based on the group of those obligations. Provisions are recognized at the present value of the expected expenses, taking into account all identifiable risks, and are not set off against recourse claims.

Long-term provisions are recognized at their discounted expected expenses as of the balance sheet date, insofar as the interest portion is essential. The interest rate used is a pre-tax interest rate that reflects the current economic situation of the market environment and takes into account the risk of the obligation, to the extent that this has not already been reflected in future estimated cash outflows.

## EMPLOYEE BENEFITS

### Pension obligations

The AlzChem Group has different pension plans. This includes both defined benefit and defined contribution plans. Defined contribution plans are post-employment benefit plans in which the company pays fixed contributions to a stand-alone entity (such as a fund or insurance) and is not legally or

factually obligated to pay any additional contributions, even if the fund or claims from the insurance contract does not have sufficient assets to provide all employee benefits in the reporting period and earlier periods. A defined benefit plan is a plan that is not a defined contribution plan.

The arrangements underlying the defined benefit plans provide for different benefits in the Group, depending on the subsidiary. These essentially include:

- pension commitments from the respective retirement age,
- one-time payments on termination of employment.

The provision, which is recognized in defined benefit plans in the consolidated balance sheet, results from the present value of the pension obligation as of the balance sheet date less the fair value of any plan assets available.

The actuarial valuation of pension provisions for occupational pensions is carried out in accordance with the projected unit credit method prescribed in IAS 19 (Employee Benefits), whereby an actuarial valuation is carried out by independent actuarial valuers at each balance sheet date. This projected unit credit method takes into account pensions and vested benefits known as of the balance sheet date as well as future increases in salaries and pensions. The valuations are based on the legal, economic and tax conditions of the respective country. The exclusively domestic obligations are determined using the following parameters:

	12/31/2018	12/31/2019
Discount rate in %	1.90	0.90
Wage and salary trend in %	2.75	2.75
Pension trend in %	2.00	1.75

Changes in the discount rate are taken into account in rounded 0.10 percentage points if there is a change compared with the discount rate of the previous reporting date.

Employee fluctuation is determined on a company specific basis and is taken into account as a function of age and length of service. As of December 31, 2019, the actuarial valuations are based on the biometric principles of the „Richttafeln 2018 G“ by Klaus Heubeck. The provision consists of the present value of the defined benefit obligation less the fair value of plan assets.

The actuarial gains and losses arising from unanticipated changes in pension obligations and from changes in actuarial assumptions in the defined benefit plans are recognized in other comprehensive income and in the consolidated statement of comprehensive income in the periods in which they occur. Past service costs and gains or losses from plan settlements are recognized in profit or loss immediately upon plan adjustment, curtailment or settlement. The interest portion of the addition to provisions (interest costs for pension obligations and expected return on plan assets) included in pension expenses is shown as interest expense within the financial result. The service costs are shown under operating personnel expenses.

Payments from a defined contribution plan are recognized in the income statement and presented within operating personnel expenses.

#### Termination benefits

Termination benefits are granted when an employee is dismissed prior to regular retirement date or when an employee voluntarily leaves the company in return for a severance payment. The Group recognizes termination benefits immediately when it has a demonstrable and irrevocable obligation to terminate the employment of current employees

in accordance with a detailed formal plan that is not subject to withdrawal, or when it is demonstrably committed to providing termination benefits as a result of an offer made by employees in exchange for voluntary redundancy. Benefits due more than twelve months after the balance sheet date are discounted to their present value. Claims for termination benefits are reported under personnel provisions.

#### Profit sharing and bonus plans

In the AlzChem Group, a provision is recognized as a liability in cases where there is a contractual obligation for profit sharing or other performance-related employee bonuses or if the Group has a de facto obligation based on past business practice.

#### Share-based remuneration

The Management Board members of AlzChem Group AG were granted stock appreciation rights (SAR) in various tranches as a long-term incentive (LTI). The SAR granted were classified and measured as cash-settled share-based remuneration in accordance with IFRS 2.30 et seq. In accordance with IFRS 2, the fair value of the work performed by the members of the Management Board in return for granting the options is recognized as an expense over the vesting period and recalculated on each balance sheet date using a Monte Carlo simulation. Further explanations are provided in note 33. The provision is reported under other long-term provisions and the expense under operating personnel expenses.

### LIABILITIES

#### Loan liabilities to banks

Loan liabilities are initially recognized at fair value and subsequently carried at amortized cost. Where there are differences between historical cost and the repayment

amount for long-term liabilities, these are accounted for using the effective interest method. Financial liabilities measured at amortized cost are initially recognized at fair value, taking transaction costs into account.

Loan liabilities are classified as current if repayment is due within the next twelve months.

Loan liabilities are allocated to the category "financial liabilities valued at acquisition costs".

#### Liabilities from finance leases

The accounting treatment of leases is explained in the section "Leasing".

#### Trade payables and other liabilities

Trade payables and other liabilities are initially recognized at fair value less transaction costs and subsequently at acquisition costs using the effective interest method. Trade payables and other current financial liabilities are allocated to the category "financial liabilities at amortized cost". Trade payables and other liabilities are classified as current if the contractual payment is due within the next twelve months.

#### CONTINGENT LIABILITIES

Contingent liabilities are possible or existing obligations that arise from past events but for which an outflow of resources is not considered probable. In accordance with IAS 37, such obligations are not to be recognized in the balance sheet but disclosed in the notes.

#### SALES RECOGNITION

AlzChem generates sales from the sale of chemical products to customers and from the provisions of site services. The determination of the amount of sales and the timing of sales recognition is different for these sales categories.

#### DELIVERY OF PRODUCTS

In the product area, AlzChem's performance obligation consists in the delivery of chemical products to the place of delivery to be determined by the customer. As a rule, contracts with customers only result in an obligation to perform. If AlzChem also undertakes and organizes the transport service to the customer, this is usually included in the costs of fulfilling the performance obligation to the customer (so-called "fulfilment costs"). However, the transport service is a separate performance obligation if the performance obligation to deliver the chemical products has been fulfilled before the end of the transport service.

The transaction price is fixed per unit of the delivered product. Amounts collected on behalf of third parties (VAT only) are not included in the transaction price. Variable consideration exists in the form of bonus agreements with customers based on contractually agreed volumes and, in part, cash discounts granted subject to certain shortened payment terms. In these cases, AlzChem determines the transaction price by taking the most probable amount into account and includes the variable price components already at the time of sales recognition if it is probable that the customer will achieve the agreed targets, or based on the customer's payment history in the past, it can be assumed that the customer will deduct the discount amount granted. If the final settlement with customers subsequently results in changes in the transaction price, this change is recognized as a reduction or increase in sales in the period in which the final settlement with the customer

is made. This period may differ from the period in which the service obligation was fulfilled. No discretionary decisions other than this estimate of the variable price components are necessary. Based on its many years of experience with customers with variable pricing, AlzChem considers this approach to be the best possible estimate of the variable price component and does not anticipate that there will be any significant changes in sales when the final settlement with the customer is made. This assumption is reviewed annually by the ratio of subsequently recorded sales to the sales realized in the previous year. In the period under review, this related to 0.19% (SFY 2018/II: 0.21% in relation to SFY 2018/I) of the sales recognized in calendar year 2018. Financing components are not taken into account due to the contractually agreed short-term payment terms. AlzChem does not receive non-cash consideration from its customers in the product area.

It is generally not necessary to split the transaction price between several service obligations. If the transport service has been identified as a separate service obligation, the standalone selling price is determined on the basis of the expected costs plus an appropriate margin.

In the case of product deliveries, services are rendered and thus sales are recognized at a certain point in time. Sales are not recognized over a period of time. The following indicators are used to determine the time of performance:

- AlzChem has an unconditional payment claim.
- The customer has legally acquired ownership of the delivered products.
- The delivered product has become the physical property of the customer.
- The risks and opportunities associated with the delivered product have been transferred to the customer.
- The customer has accepted the goods or service.

The overall assessment of these indicators leads to sales recognition for product deliveries by AlzChem at the time of transfer of risk based on the Incoterms agreed with the customer.

AlzChem sells its products to customers under the assurance that the product meets the exact specifications of the chemical composition. No further guarantees are given beyond this. In the very rare cases in which the product specification is not met, a provision for a guarantee obligation is recognized on an individual basis in accordance with the requirements of IAS 37 and reported under other provisions. Based on past experience and the quality control of the products prior to delivery, the transaction price is not taken into account when determining the amount of sales.

### PROVISION OF SERVICES

The services as a site operator can be permanent services or variable services, which the customer must always call up individually first. The service obligation to be fulfilled by AlzChem is precisely defined for each service via a term sheet. There are no further separate performance obligations per term sheet in the service sector.

The transaction price is determined as a unit price. No other price components exist in the service sector. Financing components are not taken into account due to the contractually agreed short-term payment terms. AlzChem does not receive any non-cash consideration from its customers in the service sector.

Since there is only one performance obligation per contract, it is not necessary to distribute the transaction price over more than one performance obligation.

The customer receives the benefits during the provision of services by AlzChem and consumes these benefits immediately. This means that the service obligation arising from the individual site services is fulfilled over a period of time. The method that best represents the transfer of benefits and thus the fulfilment of the service obligation to the customer is the output-oriented method for the variable services, which is based on the provision of the services. These variable services are always invoiced to the customer when the service has been performed, that is, when the customer has made use of the service and the payment claim has arisen.

Sales are recognized at the same time. In the case of permanent location services, the service obligation is performed over a period of twelve months. Billing for these services is carried out monthly in the amount of 1/12 of the annual amount. It does not matter whether the customer has actually used the service. AlzChem only has to provide the service for twelve months (e.g. fire brigade and company doctor) and after one month 1/12 of the service obligation is provided. In these cases, a so-called "stand-ready performance obligation" exists, since AlzChem only has to provide the permanent site service and the customer already benefits from the provision. Sales for these site services are recognized on a straight-line basis over the twelve-month period of the agreement, as this approach represents the best estimate for an output-oriented determination of the stage of completion for these service obligations.

No significant discretionary decisions were made in determining the amount and timing of sales from services.

Sales from contracts with customers result in receivables that are fully included in trade receivables. Trade receivables and the related sales are generally recognized directly after the performance obligation has been fulfilled.

#### OTHER INCOME AND EXPENSE RECOGNITION

Expenses are recorded as expenses when the service is used or at the time they are incurred.

Rental income and rental expenses are recognized on an accrual basis as expenses or income.

#### FINANCIAL RESULT

Interest income and interest expenses are deferred on an accrual basis, taking into account the outstanding loan amount and the applicable interest rate using the effective interest method. The applicable interest rate corresponds to the interest rate that discounts the estimated future cash inflows over the term of the financial asset to the net book value of the asset.

If a finance lease agreement exists, the payments are divided into an interest and repayment portion using financial mathematical methods.

Borrowing costs are recognized in profit or loss in the period in which they are incurred, unless they are borrowing costs for qualifying assets that must be capitalized.

#### COSTS OF CAPITAL INCREASES

In accordance with IAS 32, the directly attributable costs of issuing equity instruments, taking into account tax benefits, must be recognized as a deduction from equity at the time of issue. At the time of the capital increase, the amount is reclassified to equity. If the transaction is not executed, the deferred costs are released to the income statement.

The costs directly attributable to the historical capital increases of AlzChem Group AG were presented as a deduction from equity at the time the capital increases were implemented. The deduction amount was reported within the equity item "capital reserve adjustment item reverse acquisition".

#### DIVIDEND DISTRIBUTION

Shareholders' entitlements to dividend distributions are recognized in the period in which the corresponding resolution is passed.

#### EARNINGS PER SHARE

As of the balance sheet date December 31, 2019, the equity of AlzChem Group AG consists of 10,176,335 (December 31, 2018: 101,763,355) no-par shares.

Among other things, the Annual General Meeting of May 14, 2019, resolved a reverse stock split at a ratio of 10:1. This measure reduced the number of shares to a ratio appropriate to the size of the company, thereby raising the stock market price per share to a level that is customary in the capital market. The following two-stage procedure was necessary to implement this measure:

- The previous share capital of the company in the amount of EUR 101,763,355.00, divided into 101,763,355 bearer shares with a proportional amount of share capital of EUR 1.00 per share, was initially reduced by EUR 5.00 to EUR 101,763,350.00 by way of a capital reduction through the retirement of five shares in accordance with sec. 237 para. 1 sentence 1 second case in conjunction with para. 3 no. 1 AktG. The retired shares were made available to the company by a shareholder free of charge; the issue price for the shares was paid in full. The sole purpose of this capital reduction was to create a share capital figure which, when the capital reduction was carried out by combining shares, enabled a smooth combination ratio. The amount of the share capital attributable to the retired shares in the total amount of EUR 5.00 was transferred to the company's capital reserves in accordance with sec. 266 para. 3 A II HGB.
- After the retirement of these five shares, the number of no-par value shares issued was reduced from 101,763,350 to 10,176,335 by combining no-par value shares at a ratio of 10 to 1. As a result of this measure, the proportionate amount of share capital attributable to each individual share increased from EUR 1.00 to EUR 10.00. The share capital itself remained unchanged at EUR 101,763,350.00.

The capital measures were entered in the commercial register on June 19, 2019. Since July 1, 2019, the number of shares traded on the stock exchange has been 10,176,335.

This results in a new number of shares of 10,176,335 for the fiscal year 2019 for the calculation of earnings per share in accordance with IAS 32. In accordance with the requirements of IAS 32, prior periods have also been adjusted accordingly.

According to these specifications, earnings per share were calculated as follows:

	07/01 – 12/31/2018	01/01 – 12/31/2018*	01/01 – 12/31/2019
Consolidated net income in EUR thousand (controlling interests)	6,639	22,644	17,976
Number of shares in units	10,176,335	10,176,335	10,176,335
<b>Earnings per share in EUR</b>	<b>0.65</b>	<b>2.23</b>	<b>1.77</b>

\* Reporting, unaudited

There are no dilutive effects at the current time. The calculation is made by dividing the consolidated net profit for the year attributable to the shareholders of AlzChem Group AG by the number of outstanding shares.

#### LITIGATION AND CLAIMS FOR DAMAGES

The companies of the AlzChem Group are involved in various processes and official proceedings within the framework of

general business operations, or such proceedings may be initiated or asserted in the future. Even if the outcome of the individual proceedings cannot be predicted with certainty in view of the imponderables with which litigation is associated, it is currently estimated that there will be no significant negative impact on the Group's results of operations beyond the risks taken into account in the financial statements as liabilities or provisions.

## USE OF ASSUMPTIONS AND ESTIMATES

In preparing the consolidated financial statements, assumptions have been made and estimates used which have had an effect on the disclosure and amount of the assets, liabilities, income, expenses and contingent liabilities reported. These assumptions and estimates mainly relate to the uniform determination of economic useful lives throughout the Group, the assessment of the recoverability of inventories, the measurement of provisions, pensions or location-related risks and the realizability of future tax relief from loss carryforwards. In individual cases, actual values may differ from the assumptions and estimates made. Changes are taken into account at the time of better knowledge.

Our estimates are based on experience and other assumptions that are considered to be correct under the given circumstances. The actual values may differ from the estimates. The estimates and assumptions are reviewed on an ongoing basis.

## INCOME TAXES

The AlzChem Group is obliged to pay income taxes in various countries according to different assessment bases. The worldwide tax provision is formed on the basis of a determination of profits made in accordance with local tax regulations and the applicable local tax rates.

The amount of tax provisions and liabilities is based on estimates of whether and in what amount income taxes will be due. If necessary, appropriate provisions are made for any risks arising from a different tax treatment.

In addition, estimates must be made in order to assess the recoverability of deferred tax assets. The decisive factor in assessing the recoverability of deferred tax assets is the estimate of the probability of future taxable profits (taxable income).

There are also uncertainties regarding the interpretation of complex tax regulations and the amount and timing of future taxable income. Particularly in view of the international interdependencies, differences between the actual results and our assumptions or future changes to these assumptions may result in changes in the tax result in future periods.

## PROVISIONS

When determining the amount of provisions, assumptions have to be made about the probability of an outflow of resources. These assumptions represent the best possible estimate of the underlying situation, but are subject to a degree of uncertainty due to the necessary use of assumptions. When measuring provisions, assumptions must also be made about the amount of the possible outflow of resources. A change in the assumptions can therefore lead to a different level of the provision. Accordingly, the use of assumptions also gives rise to a certain degree of uncertainty.

The determination of the present value of pension obligations is largely dependent on the selection of the discount rate and other actuarial assumptions, which are recalculated at the end of each fiscal year. The underlying discount rate is the interest rate of high-quality corporate bonds denominated in the currency in which the benefits are paid and which have matching maturities to the pension obligations. Changes in these interest rates can lead to significant changes in the amount of the pension obligation.

At the time the consolidated financial statements were prepared, all identifiable risks were taken into account within the framework of the underlying assumptions and estimates.

## VI. NOTES TO THE INCOME STATEMENT

### 1. SALES

AlzChem generates sales from the sale of chemical products to customers and from the provision of site services. The sales of the Group, divided between these two categories, are as follows:

in EUR thousand	07/01 – 12/31/2018	01/01 –12/31/2018*	01/01 –12/31/2019
Sales from product sales	168,901	351,898	352,265
Sales from services	11,075	23,319	23,807
	<b>179,976</b>	<b>375,217</b>	<b>376,072</b>

\* Reporting, unaudited

Sales are distributed among the segments shown in the segment reporting as follows:

in EUR thousand	07/01–12/31/2018	01/01–12/31/2018*	01/01–12/31/2019
Product sales in the Specialty Chemicals segment	98,680	209,414	200,022
Product sales in the Basics & Intermediates segment	68,885	139,966	149,408
Product sales in the Other & Holding segment	1,336	2,518	2,834
Service sales in the Other & Holding segment	11,075	23,319	23,807
	<b>179,976</b>	<b>375,217</b>	<b>376,072</b>

\* Reporting, unaudited

The geographical breakdown of total sales is as follows:

in EUR thousand	07/01–12/31/2018	01/01–12/31/2018*	01/01–12/31/2019
Germany	79,851	160,236	121,258
European Union	47,953	102,403	121,910
Rest of Europe	8,703	22,046	18,347
NAFTA	21,387	38,699	49,127
Asia	16,848	34,167	38,486
Rest of the World	5,234	17,666	26,944
	<b>179,976</b>	<b>375,217</b>	<b>376,072</b>

\* Reporting, unaudited

Sales from contracts with customers result in receivables that are fully included in trade receivables. The opening and closing balances of these receivables can be seen on the respective balance sheet date under the balance sheet item trade receivables. At initial recognition, trade receivables have a heterogeneous maturity structure, which averages between 30 and 60 days. Impairment losses on trade receivables recorded in the reporting period are shown in note 17. As of both reporting dates, there were neither contractual assets nor contractual liabilities.

In the reporting period, sales of EUR 700 thousand (SFY 2018/II: EUR 413 thousand; 2018 - reporting, unaudited: EUR 580 thousand) were recorded for which the performance obligation was already fulfilled in the previous period. These result from the final invoicing of volume-based pricing with individual customers in the past fiscal year 2019. Accruals and deferrals due to transport services did not have to be made in the entire reporting period.

The total amount of the remaining benefit obligations is not disclosed, as there are no contracts with customers running for more than one year.

## 2. OTHER OPERATING INCOME

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Own work capitalized	3,544	6,920	8,460
Income from the release of provisions and liabilities	658	952	3,374
Income from currency translation	1,669	3,468	2,695
Income from grants	121	270	725
Income from services to third parties	315	934	500
Income from energy tax refunds	173	252	416
Miscellaneous other income	357	640	977
	<b>6,837</b>	<b>13,436</b>	<b>17,147</b>

\* Reporting, unaudited

The own work capitalized results from the capitalization of internally generated items of property, plant and equipment. The grants mainly include research subsidies. Income from services rendered to third parties includes expense

reimbursements in connection with the European Chemicals Regulation (REACH). Income from the valuation of derivatives was not recognized in the periods presented.

## 3. COST OF MATERIALS

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Cost of raw materials, consumables and supplies, production-related electricity and purchased goods	73,932	152,510	140,304
Cost of purchased services	1,317	2,919	2,087
	<b>75,249</b>	<b>155,429</b>	<b>142,391</b>

\* Reporting, unaudited

#### 4. PERSONNEL EXPENSES

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Wages and salaries	44,639	93,430	100,504
Social security contributions and pensions	10,921	20,755	21,584
	<b>55,560</b>	<b>114,185</b>	<b>122,088</b>

\* Reporting, unaudited

The item social security contributions and pensions includes current contributions for employer contributions to the statutory pension scheme of EUR 7,230 thousand (SFY 2018/II: EUR 3,599 thousand; 2018 - reporting, unaudited: EUR 6,737 thousand).

The following table shows the average number of employees in the AlzChem Group in the reporting period:

in EUR thousand	07/01-12/31/2018	01/01-12/31/2019
Industrial workers	802	821
Employees	635	677
Trainees	125	125
	<b>1,562</b>	<b>1,623</b>

#### 5. OTHER OPERATING EXPENSES

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Distribution costs	8,222	18,305	16,383
Maintenance	5,690	10,165	10,295
Other external services	4,886	9,071	9,359
Environmental/disposal costs	4,548	9,265	8,561
Consulting, research and development costs	3,064	4,632	5,673
Insurances	1,052	2,291	2,699
IT costs	1,421	2,656	2,448
Expenses from currency translation	1,423	3,233	2,363
Miscellaneous other expenses	7,948	15,503	16,019
	<b>38,254</b>	<b>75,121</b>	<b>73,800</b>

\* Reporting, unaudited

The expenses for operating leases in SFY 2018/II amounted to EUR 1,115 thousand (2018 - reporting, unaudited: EUR 2,193 thousand). In all previous reporting periods no contingent rents were paid. The disclosures on leases in accordance with IFRS 16 have been included in the separate note 12 Leases since the past fiscal year 2019.

The research and development costs presented above only include external research and development costs. A total of EUR 9,310 thousand (SFY 2018/II: EUR 4,728 thousand; 2018 - reporting, unaudited: EUR 8,678 thousand) in research and development costs were recorded as expenses in the reporting period.

## 6. DEPRECIATION AND IMPAIRMENT LOSSES

Details of scheduled depreciation and amortization can be found in the consolidated statement of changes in fixed assets. As in the short fiscal year 2018/II, no impairment losses were recognized on property, plant and equipment or intangible assets in the reporting period.

## 7. FINANCIAL RESULT

The financial result is made up of the following items, subdivided according to origin, as follows:

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
<b>Interest income</b>			
Receivables from banks	85	203	117
Other	142	339	185
	<b>227</b>	<b>542</b>	<b>302</b>
<b>Interest expense</b>			
Interest expense from additions to pension provisions	941	1,876	2,082
Loans liabilities to banks	266	568	652
Interest expense from sale of receivables	52	103	101
Interest expense from additions to other non-current provisions	108	110	2,468
Interest expense from leasing liabilities	3	9	55
Other	23	149	38
	<b>1,393</b>	<b>2,815</b>	<b>5,396</b>
<b>Financial result</b>	<b>-1,166</b>	<b>-2,273</b>	<b>-5,094</b>

\* Reporting, unaudited

Interest income from banks results from current account balances and short-term cash investments. Interest income from tax credits is not included in the reporting periods. In the past fiscal year 2019, interest expenses from the change in interest rates for the valuation of non-current other provisions amounting to EUR 2,343 thousand (SFY 2018/II: income of EUR 65 thousand; 2018 - reporting, unaudited: income of EUR 20 thousand) were incurred. Other interest expenses for the fiscal year 2019 include interest expenses of EUR 37 thousand from tax back payments. No interest expenses for back tax payments were incurred in the other reporting periods.

The total interest income for financial assets measured at amortized cost or financial liabilities not measured at fair

value through profit or loss amounted to EUR 121 thousand in the fiscal year 2019 (SFY 2018/II: EUR 87 thousand; 2018 - reporting, unaudited: EUR 208 thousand). The total interest expenses for financial assets measured at amortized cost or financial liabilities not measured at fair value through profit or loss amounted to EUR 652 thousand in the fiscal year 2019 (SFY 2018/II: EUR 318 thousand; 2018 - reporting, unaudited: EUR 746 thousand). No interest income or expense was recorded in any reporting period for financial assets that are measured at fair value through other comprehensive income.

All interest income and interest expenses resulting from financial assets and financial liabilities were calculated using the effective interest method.

## 8. TAXES ON INCOME AND EARNINGS

The income tax expense breaks down as follows:

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Actual tax expense	-2,798	-8,605	-7,930
thereof relating to other periods	+24	+24	-703
Deferred taxes	-47	-531	585
thereof relating to other periods	47	188	542
thereof from temporary differences	-121	-628	214
	<b>-2,845</b>	<b>-9,136</b>	<b>-7,345</b>

\* Reporting, unaudited

Taxes on income and earnings include the income taxes paid or owed in the individual countries and deferred taxes.

The calculation of deferred taxes is based on the tax rates expected in the individual countries at the time of realization; these are generally based on the statutory regulations in force or enacted on the balance sheet date.

The following reconciliation statement shows the differences between the income tax expense actually posted and the

expected income tax expense. The expected income tax expense is calculated by multiplying earnings before income taxes by the applicable income tax rate. In accordance with IAS 12.85, the applicable income tax rate is the one that is most appropriate for the presentation of information. Although the tax rate of AlzChem Group AG is 29%, the tax rate of AlzChem Trostberg GmbH was used for the tax reconciliation, as this has the most significant influence on the Group tax rate.

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Consolidated net income before income taxes	9,566	31,919	25,492
Applicable income tax rate	28.00%	28.00%	28.00%
<b>Expected income tax expense</b>	<b>2,678</b>	<b>8,937</b>	<b>7,137</b>
Effects from deviating foreign tax rates	2	-25	-6
Effects from deviating domestic tax rates	78	95	6
<b>Tax effects</b>			
Tax additions	151	368	95
Tax-free income	-4	-64	-79
Tax income relating to other periods	-62	-219	-584
Tax expense relating to other periods	39	55	745
Other deviations	-37	-11	31
<b>Total tax effects</b>	<b>87</b>	<b>129</b>	<b>208</b>
<b>Total tax expense</b>	<b>2,845</b>	<b>9,136</b>	<b>7,345</b>
<b>Effective tax rate</b>	<b>29.74%</b>	<b>28.62%</b>	<b>28.81%</b>

\* Reporting, unaudited

## VII. NOTES TO THE BALANCE SHEET

### 9. NON-CONTROLLING INTERESTS IN THE CONSOLIDATED NET INCOME

The non-controlling interests in the consolidated net income for the fiscal year 2019 relate to the 6% minority interest in AlzChem International GmbH held by the four former main shareholders of AlzChem Group AG. In the interests of simplification under company law, Dormex Company LLC was liquidated in September 2018 and is therefore no longer included in the balance sheet figures as of December 31, 2018 listed below (the business of Dormex LLC will be continued via AlzChem LLC). The period-related figures for the short fiscal year 2018/II include Dormex Company LLC until its

liquidation in September 2018. The deconsolidation of the company did not have any material effects on the income statement. Changes in non-controlling interests are shown in the consolidated statement of changes in equity .

The following financial information relates to non-controlling interests (percentage) in subsidiaries:

in EUR thousand	12/31/2018 or 07/01-12/31/2018	12/31/2019 or 01/01-12/31/2019
Non-current assets	5,001	4,836
Current assets	71	0
Non-current liabilities	0	0
Current liabilities	2,966	2,730
Cash flow	-100	0
Dividends paid	-74	0
Annual result	35	156
Other income	-15	0
Overall result	20	156

A profit and loss transfer agreement was concluded between AlzChem Trostberg GmbH and AlzChem International GmbH with effect from January 1, 2018. Accordingly, AlzChem International GmbH will transfer its future profits in full to AlzChem Trostberg GmbH, which will also assume in full any losses of AlzChem International GmbH that may arise. The contract was concluded for a period of five years and cannot be terminated during this period.

On the basis of the agreement, the Group will receive the entire annual result and the overall result of AlzChem International GmbH as of January 1, 2018. Consequently, the non-controlling interests do not receive any further annual results for the period of the profit and loss transfer agreement. The minority shareholders of AlzChem International GmbH were granted a compensation payment of EUR 2.85 (gross) per share and year for the loss of their variable profit claim for the duration of the profit and loss transfer agreement.

In the consolidated balance sheet, the present value of future compensation payments to be made has already been recognized in full (EUR 684 thousand; December 31, 2018: EUR 855 thousand) under current and non-current other liabilities. The non-controlling interest in Group equity was reduced by the same amount. The compensation payments to be made annually to the non-controlling interests are allocated (pro rata) to the consolidated net income of the non-controlling interests in each case and therefore do not correspond to the actual earnings of the non-controlling interests, as this is zero in the years of the profit and loss transfer agreement. The figure reported in the overview above represents 6% of the actual annual result of AlzChem International GmbH. However, in the balance sheet, EUR 171 thousand (December 31, 2018: EUR 85 thousand) from AlzChem International GmbH was allocated to the consolidated net result of the non-controlling interests. The cash-effective settlement takes place in January of each fiscal year.

## 10. INTANGIBLE ASSETS

Intangible assets include acquired software, rights and licenses. The AlzChem Group had no internally generated intangible assets at the reporting dates shown.

The development of intangible assets in the period from January 1 to December 31, 2018 is as follows (reporting, unaudited):

in EUR thousand	Software	Concessions, patents, licenses and similar rights	Total
<b>Acquisition costs 01/01/2018</b>	<b>3,718</b>	<b>1,928</b>	<b>5,646</b>
Additions	318	17	335
Disposals	-97	-8	-105
Reclassification	-78	78	0
Currency translation	1	-4	-3
<b>As of 12/31/2018</b>	<b>3,862</b>	<b>2,011</b>	<b>5,873</b>
<b>Amortization 01/01/2018</b>	<b>3,070</b>	<b>1,567</b>	<b>4,637</b>
Additions	326	148	474
Disposals	-97	-8	-105
Reclassification	0	0	0
Currency translation	0	-3	-3
<b>As of 12/31/2018</b>	<b>3,299</b>	<b>1,704</b>	<b>5,003</b>
<b>Net carrying amount 12/31/2017</b>	<b>648</b>	<b>361</b>	<b>1,009</b>
<b>Net carrying amount 12/31/2018</b>	<b>563</b>	<b>307</b>	<b>870</b>

The development of intangible assets in SFY 2018/II is shown below:

in EUR thousand	Software	Concessions, patents, licenses and similar rights	Total
<b>Acquisition costs 07/01/2018</b>	<b>3,780</b>	<b>1,996</b>	<b>5,776</b>
Additions	87	17	104
Disposals	-5	-2	-7
Reclassification	0	0	0
Currency translation	0	0	0
<b>As of 12/31/2018</b>	<b>3,862</b>	<b>2,011</b>	<b>5,873</b>
<b>Amortization 07/01/2018</b>	<b>3,149</b>	<b>1,636</b>	<b>4,785</b>
Additions	155	69	224
Disposals	-5	-2	-7
Reclassification	0	0	0
Currency translation	0	1	1
<b>As of 12/31/2018</b>	<b>3,299</b>	<b>1,704</b>	<b>5,003</b>
<b>Net carrying amount 06/30/2018</b>	<b>631</b>	<b>360</b>	<b>991</b>
<b>Net carrying amount 12/31/2018</b>	<b>563</b>	<b>307</b>	<b>870</b>

The development of intangible assets in the fiscal year 2019 is as follows:

in EUR thousand	Software	Concessions, patents, licenses and similar rights	Total
<b>Acquisition costs 01/01/2019</b>	<b>3,862</b>	<b>2,011</b>	<b>5,873</b>
Additions	744	394	1,138
Disposals	-5	-63	-68
Reclassification	-176	224	48
Currency translation	4	-2	2
<b>As of 12/31/2019</b>	<b>4,429</b>	<b>2,564</b>	<b>6,993</b>
<b>Amortization 01/01/2019</b>	<b>3,299</b>	<b>1,704</b>	<b>5,003</b>
Additions	317	201	518
Disposals	-5	-63	-68
Reclassification	0	0	0
Currency translation	1	-2	-1
<b>As of 12/31/2019</b>	<b>3,612</b>	<b>1,840</b>	<b>5,452</b>
<b>Net carrying amount 12/31/2018</b>	<b>563</b>	<b>307</b>	<b>870</b>
<b>Net carrying amount 12/31/2019</b>	<b>817</b>	<b>724</b>	<b>1,541</b>

Impairment losses on intangible assets were not recognized in any of the reporting periods. In the reporting periods presented, there were no intangible assets with indefinite useful lives and no intangible assets that were not yet ready for use as of the reporting date.

## 11. PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment in the period from January 1 to December 31, 2018 is shown below (reporting, unaudited):

in EUR thousand	Land, land rights and buildings	Plant and machinery	Operating and office equipment	Advance payments and assets under construction	Total
<b>Acquisition costs 01/01/2018</b>	<b>47,691</b>	<b>178,345</b>	<b>18,279</b>	<b>16,571</b>	<b>260,886</b>
Additions	685	6,666	2,052	34,910	44,313
Disposals	-53	-3,848	-2,583	-228	-6,712
Reclassification	677	9,761	812	-11,250	0
Currency translation	-16	-108	26	-34	-132
<b>As of 12/31/2018</b>	<b>48,984</b>	<b>190,816</b>	<b>18,586</b>	<b>39,969</b>	<b>298,355</b>
<b>Depreciation as of 01/01/2018</b>	<b>20,041</b>	<b>112,350</b>	<b>13,364</b>	<b>0</b>	<b>145,755</b>
Additions	1,389	10,775	2,549	0	14,713
Disposals	-21	-3,783	-2,539	0	-6,343
Reclassification	0	0	0	0	0
Currency translation	-1	-35	1	0	-35
<b>As of 12/31/2018</b>	<b>21,408</b>	<b>119,307</b>	<b>13,375</b>	<b>0</b>	<b>154,090</b>
<b>Net carrying amount 12/31/2017</b>	<b>27,649</b>	<b>65,995</b>	<b>4,915</b>	<b>16,571</b>	<b>115,131</b>
<b>Net carrying amount 12/31/2018</b>	<b>27,576</b>	<b>71,509</b>	<b>5,211</b>	<b>39,969</b>	<b>144,265</b>

The development of property, plant and equipment in short fiscal year 2018/II is shown below:

in EUR thousand	Land, land rights and buildings	Plant and machinery	Operating and office equipment	Advance payments and assets under construction	Total
<b>Acquisition costs 07/01/2018</b>	<b>48,038</b>	<b>184,517</b>	<b>17,380</b>	<b>23,771</b>	<b>273,706</b>
Additions	556	4,865	1,395	21,767	28,583
Disposals	-24	-3,685	-300	0	-4,009
Reclassification	408	5,069	96	-5,573	0
Currency translation	6	50	15	4	75
<b>As of 12/31/2018</b>	<b>48,984</b>	<b>190,816</b>	<b>18,586</b>	<b>39,969</b>	<b>298,355</b>
<b>Depreciation 07/01/2018</b>	<b>20,718</b>	<b>117,511</b>	<b>12,316</b>	<b>0</b>	<b>150,545</b>
Additions	704	5,409	1,352	0	7,465
Disposals	-14	-3,635	-293	0	-3,942
Reclassification	0	0	0	0	0
Currency translation	0	22	0	0	22
<b>As of 12/31/2018</b>	<b>21,408</b>	<b>119,307</b>	<b>13,375</b>	<b>0</b>	<b>154,090</b>
<b>Net carrying amount 06/30/2018</b>	<b>27,320</b>	<b>67,006</b>	<b>5,064</b>	<b>23,771</b>	<b>123,161</b>
<b>Net carrying amount 12/31/2018</b>	<b>27,576</b>	<b>71,509</b>	<b>5,211</b>	<b>39,969</b>	<b>144,265</b>

The development of property, plant and equipment in the fiscal year 2019 is as follows:

in EUR thousand	Land, land rights and buildings	Plant and machinery	Operating and office equipment	Advance payments and assets under construction	Total
<b>Acquisition costs 01/01/2019</b>	<b>48,984</b>	<b>190,816</b>	<b>18,586</b>	<b>39,969</b>	<b>298,355</b>
Additions	8,059	21,944	2,591	6,363	38,957
Disposals	-110	-783	-373	0	-1,266
Reclassification	10,428	26,321	470	-37,267	-48
Currency translation	4	-46	1	-18	-59
<b>As of 12/31/2019</b>	<b>67,365</b>	<b>238,252</b>	<b>21,275</b>	<b>9,047</b>	<b>335,939</b>
<b>Depreciation 01/01/2019</b>	<b>21,408</b>	<b>119,307</b>	<b>13,375</b>	<b>0</b>	<b>154,090</b>
Additions	1,780	12,986	2,529	0	17,295
Disposals	-83	-731	-317	0	-1,131
Reclassification	0	0	0	0	0
Currency translation	0	-18	1	0	-17
<b>As of 12/31/2019</b>	<b>23,105</b>	<b>131,544</b>	<b>15,588</b>	<b>0</b>	<b>170,237</b>
<b>Net carrying amount 12/31/2018</b>	<b>27,576</b>	<b>71,509</b>	<b>5,211</b>	<b>39,969</b>	<b>144,265</b>
<b>Net carrying amount 12/31/2019</b>	<b>44,260</b>	<b>106,708</b>	<b>5,686</b>	<b>9,047</b>	<b>165,702</b>

Impairment losses on property, plant and equipment were not recognized in any of the reporting periods presented. As of December 31, 2018, property, plant and equipment included EUR 0 thousand (January 1, 2018: EUR 223 thousand) in assets held under finance leases in accordance with the provisions of IAS 17 Leases applicable until December 31, 2018. In SFY 2018/II, AlzChem exercised the purchase option and acquired

the land from the previous lessor. The disclosures on leases in accordance with IFRS 16 have been included in the separate note 12 Leasing since the past fiscal year 2019.

As a site operator, AlzChem rents or leases individual office space, storage areas and company apartments. Separate disclosure of the carrying amounts of these individual leased

properties in accordance with IFRS 16.58 is not possible in most cases, as individual carrying amounts either do not exist or are not material when considering the total carrying amount of the land and buildings.

Plant and machinery includes jointly controlled assets of EUR 207 thousand as of the balance sheet date (December 31, 2018: EUR 310 thousand). This relates to a steam boiler which Nigu Chemie GmbH operates at the Waldkraiburg site together with a neighbouring company on its property. The AlzChem Group's share in this joint venture agreement is 50%. The two companies each account for 50% of the volume produced by the steam boiler for their own production processes. The share of expenses from this jointly controlled asset amounted to EUR 1,477 thousand in the fiscal year 2019 (SFY 2018/II: EUR 665 thousand; 2018 - reporting, unaudited: EUR 1,308 thousand). As in SFY 2018/II, no income from this jointly controlled asset was generated.

In the past fiscal year 2019, borrowing costs of EUR 377 thousand (SFY 2018/II: EUR 80 thousand; 2018 - reporting, unaudited: EUR 80 thousand) were capitalized as part of the cost of technical equipment and machinery and buildings. The underlying financing cost rate corresponds to the loan interest rate of the directly attributable loans.

Property, plant and equipment in the amount of EUR 15,364 thousand (December 31, 2018: EUR 16,135 thousand) serves as collateral for loan liabilities to banks.

## 12. LEASING

With the introduction of IFRS 16, lease usage rights and leasing liabilities were recognized for the first time in accordance with the new requirements for lease accounting. Detailed information on the first-time application of the new standard and the accounting methods is provided in section IV. Notes on the principles and methods of the consolidated financial statements.

The AlzChem Group has entered into leases mainly for motor vehicles, forklifts, railway wagons, office space and software. Leases for smaller IT equipment, such as printers and photocopiers, which are mainly workplace-related, are classified as leases with a lower value and are not recognized in the balance sheet. Similarly, leases with a term of up to twelve months and those for intangible assets are not recognized in the balance sheet. The following table shows the development of lease usage rights in the fiscal year 2019, broken down by the classes of property, plant and equipment relevant for AlzChem:

in EUR thousand	Land, land rights and buildings	Plant and machinery	Operating and office equipment	Total
<b>Carrying amount 01/01/2019</b>	276	2,865	292	3,433
Additions	0	8,056	0	8,056
Depreciation	-105	-1,486	-88	-1,679
Disposals	-40	0	0	-40
<b>carrying amount 12/31/2019</b>	<b>131</b>	<b>9,435</b>	<b>204</b>	<b>9,770</b>

The carrying amounts of the leasing liabilities and the future payments from these leasing liabilities are as follows according to their maturities:

12/31/2019 in EUR thousand	Up to 1 year	1 to 5 years	Over 5 years	Total
Present value of leasing liabilities	1,706	4,856	2,854	9,416
Payments from leasing liabilities	1,831	5,140	2,902	9,873

The following expenses and income in connection with leases were recorded in the income statement:

P&L item in EUR thousand		01/01 - 12/31/2019
Other operating expenses	Leasing expenses for short-term leasing contracts	902
Other operating expenses	Leasing expenses low-value leasing contracts	55
Other operating expenses	Variable leasing expenses outside leasing liabilities	33
Interest and similar expenses	Interest expense for leasing liabilities	55
Other operating income	Income from operating leases	470

The AlzChem Group did not generate any income or losses from subleasing lease usage rights or from sale-and-lease-back transactions.

There are no significant extension or termination options for the currently recognized lease usage rights that are not taken into account in the calculation of leasing liabilities, nor have any residual value guarantees been provided. Similarly, there are no obligations from leases that have already been concluded but not yet commenced as of the balance sheet date. We expect future payments from variable leasing payments to be approximately at the same level as in the past fiscal year 2019.

The leasing conditions are negotiated individually and include a large number of different terms and conditions. The leasing agreements do not contain any credit conditions, but leased assets may not be used as collateral for borrowings.

The AlzChem Group has not identified any finance leases as a lessor. As the operator of the site, AlzChem rents or leases out individual offices, storage space and company apartments. The AlzChem Group expects the following inflows from these contracts in the coming periods:

12/31/2019 in EUR thousand	Expected in the fiscal year					
	2020	2021	2022	2023	2024	After 2024
Proceeds from operating lease agreements	1,468	1,074	691	691	550	2,685

As of December 31, 2018, the AlzChem Group had neither property, plant and equipment nor liabilities from finance

leases in accordance with the provisions of IAS 17 Leasing valid until December 31, 2018.

### 13. FINANCIAL ASSETS

Non-current financial assets comprise all shares in other equity participations and are allocated to the "at fair value through profit or loss" measurement category. As there are no observable market values for these investments and, taking into account their overall minor significance for the AlzChem Group, no reliable parameters for a model valuation can be determined with reasonable effort, the acquisition costs are used as the best available indication of fair value. The AlzChem Group does not currently plan to divest the investments.

### 14. OTHER RECEIVABLES AND OTHER ASSETS

Non-current and current other receivables and other assets comprise the following financial and non-financial assets:

in EUR thousand	12/31/2018	12/31/2019
<b>Non-current receivables and other assets</b>		
<b>Including financial assets</b>		
Refund claims against suppliers	0	4
Total non-current financial assets	0	4
<b>Including non-financial assets</b>		
Prepayments and accrued income	886	416
Other	5	50
Total non-current non-financial assets	891	466
<b>Total non-current receivables and other assets</b>	<b>891</b>	<b>470</b>
<b>Current receivables and other assets</b>		
<b>Including financial assets</b>		
Receivables from purchase price retention, special lock account and settlement account	5,689	5,087
Current restricted cash investments	5,902	5,902
Other	190	189
Total current financial assets	11,781	11,178
<b>Including non-financial assets</b>		
Tax receivables	1,798	1,802
Prepayments and accrued income	887	1,008
Other	44	63
Total current non-financial assets	2,729	2,873
<b>Total current receivables and other assets</b>	<b>14,510</b>	<b>14,051</b>

The receivables from purchase price retention, special lock account and settlement account result from factoring transactions and represent receivables from the factor. Current cash investments relate to liquid funds invested with banks with a fixed-interest period of no more than twelve months.

This cash investment of EUR 5,902 thousand (December 31, 2018: EUR 5,902 thousand) serves in its entirety as security in accordance with the legal requirements for the aftercare and recultivation of landfill sites.

Prepayments and accrued income were mainly formed for advance payments of insurance policies and maintenance contracts. Insurance policies in connection with the current stock exchange listing in the amount of EUR 416 thousand (December 31, 2018: EUR 245 thousand) are also reported under non-current assets.

No value adjustments were made to the above-mentioned non-current and current financial assets, nor are any amounts overdue included. As of the balance sheet date, there are no indications that payments will not be made when these items become due.

The current and non-current financial assets shown here include the following receivables in foreign currency:

in EUR thousand	12/31/2018	12/31/2019
<b>Total</b>	<b>161</b>	<b>104</b>
USD	3	15
SEK	49	53
CNY	109	36

## 15. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and if the deferred taxes relate to the same tax authority.

Deferred tax assets and deferred tax liabilities relate to the following items:

in EUR thousand	12/31/2018	12/31/2019
<b>Deferred tax assets</b>		
Intangible assets	91	60
Property, plant and equipment	730	328
Financial assets	16	49
Inventories	807	1,215
Other receivables and other assets	1,124	1,438
Provisions	21,823	28,602
thereof for pension obligations	19,512	25,697
Liabilities	3	2,605
Tax loss carryforwards	360	180
<b>Total deferred tax assets</b>	<b>24,954</b>	<b>34,477</b>
thereof current	1,950	5,307
thereof non-current	23,004	29,170
<b>Deferred tax liabilities</b>		
Property, plant and equipment and lease usage rights	224	2,915
Other receivables and other assets	1,793	1,815
Liabilities	72	15
<b>Total deferred tax liabilities</b>	<b>2,089</b>	<b>4,745</b>
thereof current	1,797	1,815
thereof non-current	292	2,930
Netting of deferred tax assets and liabilities	0	0
<b>Balance sheet recognition of deferred tax assets</b>	<b>24,954</b>	<b>34,477</b>
<b>Balance sheet recognition of deferred tax liabilities</b>	<b>2,089</b>	<b>4,745</b>

The changes in deferred taxes compared with the SFY 2018/II were recognized as expenses in the income statement in the amount of EUR 585 thousand (SFY 2018/II: EUR -47 thousand; 2018 - reporting, unaudited: EUR -531 thousand). The change in deferred taxes on pension provisions of EUR 6,289 thousand (SFY 2018/II: EUR 462 thousand; 2018 - reporting, unaudited: EUR 141 thousand) is included in other comprehensive income.

Deferred tax assets on income tax loss carryforwards amounting to EUR 9 thousand (December 31, 2018: EUR 7 thousand) are attributable to German companies. Of this amount, EUR 4 thousand (December 31, 2018: EUR 3 thousand) is attributable to trade tax and EUR 5 thousand (December 31, 2018: EUR 4 thousand) to corporate income tax. In the year under review, deferred tax assets were recognized for all income tax loss carryforwards. The existing tax loss carryforwards are non-expirable.

The calculation of deferred taxes resulted in a surplus of deferred tax assets. Based on the approved corporate planning, it is assumed that sufficient tax results will be available in the future to make the realization of deferred tax assets probable.

No deferred tax liabilities were recognized for temporary differences in connection with shares in subsidiaries amounting to EUR 67,912 thousand (December 31, 2018: EUR 80,357 thousand). For further information, please refer to the explanations on accounting and valuation principles and to the notes in section IV.

## 16. INVENTORIES

in EUR thousand	12/31/2018	12/31/2019
Raw materials, consumables and supplies	25,771	26,241
Unfinished goods	15,943	15,670
Unfinished services	194	124
Finished goods	36,509	31,991
Trade goods	439	181
Advance payments made	0	400
	<b>78,856</b>	<b>74,607</b>

In the past fiscal year 2019, impairments on inventories of EUR 1,868 thousand (SFY 2018/II: EUR 395 thousand; 2018 - reporting, unaudited: EUR 872 thousand) and reversals of impairments of EUR 51 thousand (SFY 2018/II: EUR 2,206 thousand; 2018 - reporting, unaudited: EUR 3,040 thousand) were recognized in the cost of materials. Impairment losses were mainly recognized for overreach, lack of marketability and write-downs to net realizable value. The total amount of inventories recorded as expenses in the fiscal year amounts to EUR 142,391 thousand (SFY 2018/II: EUR 75,249 thousand; 2018 - reporting, unaudited: EUR 155,429 thousand).

## 17. TRADE RECEIVABLES

The development of value adjustments in SFY 2018/II is shown below:

in EUR thousand	07/01/2018	Additions	Consumption	Reversal	Currency translation	12/31/2018
Impairment on trade receivables (AC)	132	0	0	-24	-2	106
Impairment on trade receivables (FVOCI)	501	1	0	0	0	502
<b>Total</b>	<b>633</b>	<b>1</b>	<b>0</b>	<b>-24</b>	<b>-2</b>	<b>608</b>

The development of value adjustments in the fiscal year 2019 is shown below:

in EUR thousand	01/01/2019	Additions	Consumption	Reversal	Currency translation	12/31/2019
Impairment on trade receivables (AC)	106	8	0	-106	-1	7
Impairment on trade receivables (FVOCI)	502	80	0	0	0	582
<b>Total</b>	<b>608</b>	<b>88</b>	<b>0</b>	<b>-106</b>	<b>-1</b>	<b>589</b>

The value adjustments as of the reporting date relate to a gross receivables volume before collateral and value adjustments of EUR 26,872 thousand (FVOCI) (December 31, 2018: EUR 20,987 thousand) and EUR 6,218 thousand (AC) (December 31, 2018: EUR 13,971 thousand).

The ratio of the expected loss, measured against the total receivables portfolio, is 1.81% as of the reporting date, whereby the individual rates based on historical values fluctuate between 0.02% and 1.65% depending on the overdue nature of the receivables. For receivables that have reached "defaulted" status, historically around 44% of the outstanding amount could be realized through the realization of collateral or other recovery measures.

As of December 31, 2019, the AlzChem Group had received collateral from trade credit insurance for the collateralization of trade receivables in the amount of EUR 14,589 thousand (December 31, 2018: EUR 11,985 thousand). Of this amount, collateral in the amount of EUR 475 thousand (December 31, 2018: EUR 2,888 thousand) relates to overdue receivables.

In the case of receivables that are neither impaired nor overdue, there were no indications as of the balance sheet date that payments would not be made when due.

Due to the international activities of the Group, trade receivables include the following foreign currency receivables converted into the Group currency, the euro, as of the balance sheet dates:

in EUR thousand	12/31/2018	12/31/2019
<b>Total</b>	<b>16,474</b>	<b>11,294</b>
USD	9,878	6,226
JPY	2,420	2,432
SEK	2,838	1,939
CNY	1,338	556
Other	0	141

The receivables sold as part of factoring, less the agreed retentions, amount to EUR 15,314 thousand (December 31, 2018: EUR 15,755 thousand). The analysis of the transfer of the opportunities and risks arising from the receivables sold as of December 31, 2019 and as of the previous year's balance sheet date has shown a complete transfer, so that no remaining commitment is shown within the AlzChem Group. Neither in the past year nor in the previous period were there any cash returns from the purchase price retentions to the factoring company in the context of factoring.

## 18. INCOME TAX ASSETS

Tax receivables comprise income tax receivables of German companies in the amount of EUR 259 thousand (December 31, 2018: EUR 1,977 thousand) and foreign companies in the amount of EUR 124 thousand (December 31, 2018: EUR 0 thousand). These result from overpayments in the past and previous fiscal years.

## 19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up as follows:

in EUR thousand	12/31/2018	12/31/2019
Bank balances	12,852	9,052
Cash on hand	5	9
	<b>12,857</b>	<b>9,061</b>

## 20. EQUITY

### SUBSCRIBED CAPITAL

The subscribed capital corresponds to that of AlzChem Group AG. The subscribed capital of AlzChem Group AG, Trostberg, amounts to EUR 101,763,350.00 on the reporting date (December 31, 2018: EUR 101,763,355.00). The Annual General Meeting on May 14, 2019 resolved, among other things, a reverse stock split at a ratio of 10 to 1. The following two-stage procedure was necessary to implement this:

- The previous share capital of the company in the amount of EUR 101,763,355.00, divided into 101,763,355 bearer shares with a proportional amount of share capital of EUR 1.00 per share, was initially reduced by EUR 5.00 to EUR 101,763,350.00 by way of a capital reduction through the retirement of five shares in accordance with sec. 237 para. 1 sentence 1 second case in conjunction with para. 3 no. 1 AktG. The retired shares were made available to the company by a shareholder free of charge; the issue price for the shares was paid in full. The sole purpose of this capital reduction was to create a share capital figure which, when the capital reduction was carried out by

combining shares, enabled a smooth combination ratio. The amount of the share capital attributable to the retired shares in the total amount of EUR 5.00 was transferred to the company's capital reserves in accordance with sec. 266 para. 3 A II HGB.

- Following the retirement of these five shares, the number of no-par value shares issued was reduced from 101,763,350 to 10,176,335 by combining no-par value shares at a ratio of 10 to 1. As a result of this measure, the proportionate amount of the share capital attributable to each individual share increased from EUR 1.00 to EUR 10.00. The share capital itself remained unchanged at EUR 101,763,350.00.

The capital measures were entered in the commercial register on June 19, 2019. Since July 1, 2019, the number of shares traded on the stock exchange has been 10,176,335. The notional interest in the share capital per share amounts to EUR 10.00 after the implementation of the reverse split resolved by the Annual General Meeting 2019. There are no different classes of shares. The company does not hold any treasury shares and has not issued any shares with special rights. The same rights and obligations are associated with all shares.

## AUTHORIZED CAPITAL 2017

The Management Board is authorized in accordance with sec. 5 para. 5 of the company's articles of Incorporation to increase the share capital of AlzChem Group AG, with the approval of the Supervisory Board, on one or more occasions until July 31, 2022 by a total of up to EUR 10,063,333.00 (in words: ten million sixty-three thousand three hundred and thirty-three euros) by issuing up to 10,063,333 new bearer shares against cash and/or non-cash contributions (Authorized Capital 2017). The shareholders are generally to be granted subscription rights. The statutory subscription right can also be granted in such a way that the new shares are taken over by a credit institution or a syndicate of credit institutions determined by the Management Board with the obligation to offer them to the shareholders of the company for subscription.

The Management Board is authorized, with the approval of the Supervisory Board, to exclude the statutory subscription right of shareholders in the following cases:

- in the event of a capital increase against contributions in kind, in particular for the acquisition of companies, parts of companies or equity interests in companies;
- in the case of capital increases against cash contributions, if the issue price of the new shares issued under exclusion of the subscription right pursuant to sec. 186 para. 3 sentence 4 AktG is not significantly lower than the stock exchange price of the already listed shares of the same class and features, and the total pro rata amount of the share capital attributable to the new shares issued under exclusion of the subscription right pursuant to sec. 186 para. 3 sentence 4 AktG does not exceed 10% of the share capital existing at the time this authorization becomes effective and at the time this authorization is exercised. This limit of 10% of the share capital shall include shares that were issued or sold during the term of this authorization up to the time of exercising this authorization in direct or analogous application of sec. 186 para. 3 sentence 4 AktG;

- to avoid fractional amounts;
- to issue shares within the scope of share participation or other share-based programs against cash and/or non-cash contributions to members of the company's Management Board, members of the representative body of a company affiliated with the company or to employees of the company or of a company affiliated with the company, whereby the employment relationship or board relationship with the company or with an affiliated company must exist at the time of the commitment to issue shares. Insofar as members of the company's Management Board are to be granted shares, this is decided solely by the company's Supervisory Board.

The Management Board is authorized, with the approval of the Supervisory Board, to determine the further details of the capital increase and its implementation, in particular the content of the rights attached to the shares and the conditions of the share issue, including profit participation that deviates from sec. 60 para. 2 AktG. The Supervisory Board is authorized to amend the company's articles of association after the Authorized Capital has been fully or partially utilized or after the expiry of the Authorized Capital, in particular with regard to the amount of the share capital and the number of existing no-par value shares.

The above presentation reflects the content adopted by the Annual General Meeting 2017 and incorporated into the articles of association of the company. However, the following should be noted with regard to the number of shares available for a capital increase from Authorized Capital 2017: The Authorized Capital 2017 has not been formally adjusted in the context of the reverse split of shares at a ratio of 10 to 1 as resolved by the Annual General Meeting 2019. However, the number of shares to be issued under this capital has also been reduced in the ratio of 10 to 1 due to the lack of the continued existence of the previous shares, each of which has a notional interest of EUR 1.00 in the share capital, and therefore - with an unchanged maximum increase amount of EUR 10,063,333.00 - now actually amounts to only 1,006,333 shares.

The Annual General Meeting did not grant the Management Board any rights with regard to a contingent capital increase.

## AUTHORIZATION TO ACQUIRE TREASURY SHARES

In order to give AlzChem Group AG the opportunity to acquire and resell treasury shares if necessary, the Annual General Meeting authorized AlzChem Group AG in accordance with sec. 71 para. 1 no. 8 AktG to acquire treasury shares in a volume of up to 10% of the share capital existing at the time of the resolution until the end of July 31, 2022. Together with other shares in the company which AlzChem Group AG has acquired and still holds at the time of acquisition or which are attributable to it in accordance with sec. 71d or 71e AktG, the shares acquired on the basis of this authorization may at no time exceed 10% of the share capital. The authorization may not be used by AlzChem Group AG for the purpose of trading in treasury shares.

The authorization can be exercised in whole or in part, once or several times, by AlzChem Group AG or by dependent or majority-owned companies of AlzChem Group AG or by third parties acting on behalf of AlzChem Group AG or dependent or majority-owned companies of AlzChem Group AG. At the discretion of the Management Board, the acquisition can be made via the stock exchange or by means of a public purchase offer addressed to all shareholders.

In the case of acquisition via the stock exchange, the purchase price (excluding incidental acquisition costs) may not exceed or fall below the price of the share determined by the opening auction in Xetra trading (or a comparable successor system) on the trading day by more than 10%.

In the event of acquisition via a public purchase offer, the purchase price offered or the limits of the purchase price range per share (excluding incidental acquisition costs) may not be more than 10% higher or lower than the closing price in Xetra trading (or a comparable successor system) on the third day of trading before the day of the public announcement of the offer.

If there are not insignificant deviations of the relevant price after the publication of the public purchase offer, the offer can be adjusted. In this case, the price on the third stock exchange trading day prior to the public announcement of a possible adjustment will be used as a basis. The volume of the offer may be limited. If the total subscription to the offer exceeds the fixed volume, acceptance must be on a quota basis. Preferential acceptance of small numbers of up to 100 tendered shares per shareholder may be provided for.

The Management Board is authorized to use shares of the company acquired on the basis of this authorization for all legal purposes. In particular, the Management Board is authorized to do the following:

(1) The Management Board is authorized, with the approval of the Supervisory Board, to sell treasury shares acquired on the basis of this authorization on the stock exchange or by means of offers to all shareholders. In the case of sale via the stock exchange, the shareholders have no subscription right. In the event of a sale by public offer, the Management Board is authorized, with the approval of the Supervisory Board, to exclude the subscription right of shareholders for fractional amounts.

(2) The Management Board is further authorized, with the approval of the Supervisory Board, to sell treasury shares acquired on the basis of this authorization in a way other than via the stock exchange or by means of offers to all shareholders if the acquired treasury shares are sold at a price that is not significantly lower than the stock exchange price of shares of the company with the same terms at the time of the sale. The subscription right of shareholders is excluded in this case. This authorization is limited to a total of 10% of the share capital existing at the time of the resolution by the Annual General Meeting or, if lower, of the share capital of the company existing at the time this authorization is exercised. This limit of 10% of the share capital shall include shares that were issued or sold during the term of this authorization up to the time of its exercise in direct or analogous application of sec. 186 para. 3 sentence 4 AktG.

(3) The Management Board is further authorized, with the consent of the Supervisory Board, to use treasury shares of the company acquired on the basis of this authorization as (partial) consideration within the scope of mergers or for the acquisition of companies, investments in companies, parts of companies or other assets.

(4) The Management Board is further authorized, with the approval of the Supervisory Board, to offer or transfer treasury shares of the company acquired on the basis of this authorization to employees of the company or its Group companies for purchase. The Supervisory Board shall be authorized to offer or transfer treasury shares of the company, which were acquired on the basis of this authorization or an authorization granted earlier, to members of the Management Board of the company for purchase.

(5) The Management Board is further authorized, with the consent of the Supervisory Board, to redeem the company's treasury shares acquired on the basis of this authorization without such redemption or its implementation requiring a further resolution of the Annual General Meeting. The authorization to redeem shares may be exercised in whole or in part. The withdrawal leads to a capital reduction. In deviation from this, the Management Board may determine that the share capital is not reduced, but that the share of the other shareholders in the share capital is increased in accordance with sec. 8 para. 3 AktG. In this case, the Supervisory Board is authorized to adjust the number of shares stated in the articles of association.

The shareholders' subscription right is excluded in the execution of the measures under (2) to (5).

All the above authorizations may be exercised once or several times, in whole or in part, individually or jointly.

#### CAPITAL RESERVE ADJUSTMENT ITEM REVERSE ACQUISITION

The adjustment of the subscribed capital of AlzChem Trostberg GmbH to the subscribed capital of AlzChem Group AG and the business transactions from the capital increases in the fiscal year 2017 that did not affect the subscribed capital of AlzChem Group AG are shown in the capital reserve adjustment item reverse acquisition. These adjustments were necessary in order to present the requirements for accounting and reporting a reverse business combination in the fiscal year 2017 (see the explanations in II. Business model change and the resulting presentation in the IFRS consolidated financial statements as of December 31, 2017). The item has not changed compared with December 31, 2018.

The subscribed capital of AlzChem Trostberg GmbH amounts to EUR 11,000 thousand at the reporting date (December 31, 2018: EUR 11,000 thousand).

#### CAPITAL RESERVE

The capital reserves represent those of AlzChem Trostberg GmbH and remained unchanged at EUR 24,981 thousand for the entire reporting period.

## OTHER ACCUMULATED EQUITY

Other accumulated equity includes gains and losses that are not recognized in the income statement but in other comprehensive income. In the AlzChem Group, this includes, in the period under review, the difference from the translation

differences from foreign financial statements into the reporting currency, effects from the revaluation of defined benefit obligations, changes from the market valuation of financial assets in other comprehensive income and deferred taxes thereon. The development of the individual items in the period under review is shown below:

in EUR thousand	Measurement of financial assets measured at fair value through other comprehensive income	Difference from the currency translation	Valuation of pension provisions	Total
<b>As of 07/01/2018</b>	<b>7</b>	<b>725</b>	<b>-31,779</b>	<b>-31,047</b>
Gains (+) or losses (-) recognized in other comprehensive income	0	0	-1,650	-1,650
Difference from currency translation	0	83	0	83
Deferred taxes	0	0	462	462
Reclassification to income statement	0	29	0	29
<b>As of 12/31/2018</b>	<b>7</b>	<b>837</b>	<b>-32,967</b>	<b>-32,123</b>
<b>As of 01/01/2018*</b>	<b>0</b>	<b>600</b>	<b>-32,610</b>	<b>-32,010</b>
Effect of the change in accounting principles*	4	0	0	4
Gains (+) or losses (-) recognized in other comprehensive income*	4	0	-498	-494
Difference from currency translation*	0	208	0	208
Deferred taxes*	-1	0	141	140
Reclassification to income statement*	0	29	0	-29
<b>As of 12/31/2018*</b>	<b>7</b>	<b>837</b>	<b>-32,967</b>	<b>-32,123</b>
<b>As of 01/01/2019</b>	<b>7</b>	<b>837</b>	<b>-32,967</b>	<b>-32,123</b>
Gains (+) or losses (-) recognized in other comprehensive income	2	0	-22,457	-22,455
Difference from currency translation	0	138	0	138
Deferred taxes	-1	0	6,289	6,288
<b>As of 12/31/2019</b>	<b>8</b>	<b>975</b>	<b>-49,135</b>	<b>-48,152</b>

\* Reporting, unaudited

The effects presented here comprise all other accumulated equity including non-controlling interests. As a result of the liquidation of Dormex Company LLC in the short fiscal

year 2018/II, the other accumulated equity shown here has corresponded to the other accumulated equity reported in the balance sheet since December 31, 2018.

## RETAINED EARNINGS

Retained earnings include the earnings accumulated in the year under review and in previous fiscal years, less dividend payments to shareholders. In accordance with the requirements for accounting and reporting a reverse business combination, retained earnings is a continuation of the IFRS consolidated retained earnings of AlzChem Trostberg GmbH at the time of the business combination in the fiscal year 2017.

In the reporting period, AlzChem Group AG distributed a dividend of EUR 9,159 thousand (SFY 2018/II: EUR 11,194 thousand; 2018 - reporting, unaudited: EUR 11,194 thousand) to the shareholders. Based on the 10,176,335 shares of AlzChem Group AG outstanding at the balance sheet date December 31, 2019, this resulted in a dividend of EUR 0.90 per share (SFY 2018/II: EUR 1.10; 2018 - reporting, unaudited: EUR 1.10)<sup>60</sup>. The dividend in the reporting periods was paid out as a cash dividend.

A proposal will be made to the Annual General Meeting to distribute a dividend of EUR 7,632,251 from the retained earnings for the fiscal year 2019. This corresponds to a dividend of EUR 0.75 per share.

## NON-CONTROLLING INTERESTS

Non-controlling interests amounting to EUR 1,592 thousand (December 31, 2018: EUR 1,420 thousand) include the shares in the capital of AlzChem International GmbH that are not attributable to the shareholders of AlzChem Trostberg GmbH. The changes are shown in the consolidated statement of changes in equity.

A profit and loss transfer agreement was concluded between AlzChem Trostberg GmbH and AlzChem International GmbH with effect from January 1, 2018. Accordingly, AlzChem International GmbH will transfer its future profits in full to AlzChem Trostberg GmbH, which will also assume in full any losses of AlzChem International GmbH. The contract was concluded for a period of five years and cannot be terminated during this period.

Based on the agreement, the Group will receive the entire annual result and overall result of AlzChem International GmbH since January 1, 2018. Consequently, the non-controlling interests do not receive any further annual results for the period of the profit and loss transfer agreement. The minority shareholders of AlzChem International GmbH (6% of the company's capital) were granted a compensation payment for the loss of their variable profit entitlement. The compensation payment is made via AlzChem Trostberg GmbH in January of each fiscal year.

Further financial information on non-controlling interests can be found in note 9.

## CAPITAL MANAGEMENT

The objectives of the AlzChem Group with regard to capital management are, on the one hand, to ensure the long-term continuation of the company and to generate appropriate returns for the shareholders, and on the other hand to maintain an optimal capital structure in order to reduce capital costs.

The capital structure is managed in such a way that it takes account of changes in the macroeconomic environment and risks arising from the underlying assets. Thanks to its strong operating cash flow, the company is in a position to make optimum use of its own financial resources. In the case of investments that are generally only made after careful consideration of cost/benefit potentials, the company regularly reviews whether the available financial resources can be replaced by long-term financing in favor of improved raw material procurement prices. In principle, the AlzChem Group is in permanent contact with banks and other financing companies in order to examine the use of bank loans and other financing options to optimize the return on equity.

As part of this process, the procurement of outside capital is managed on the basis of a target debt structure that is oriented towards companies in the same industry and with similar size characteristics of the AlzChem Group. When selecting financial instruments, the focus is on financing with matching maturities, which is achieved by controlling the maturities. When monitoring the capital structure and

<sup>60</sup> Adjusted comparative figures for the previous year. See explanations in the notes to the consolidated financial statements in „Notes on the principles and methods of the consolidated financial statements“.

other resulting key figures, the focus is on the consideration and compliance with contractually regulated agreements in financing contracts (covenants).

Capital is monitored on the basis of the debt ratio, calculated as the ratio of net debt to total capital. Net debt is defined as the sum of all liabilities less existing cash and cash equivalents.

in EUR thousand	12/31/2018	12/31/2019
Total capital	313,551	342,583
Net debt	232,302	272,172
<b>Debt ratio</b>	<b>0.74</b>	<b>0.79</b>

In addition, some loan agreements contain certain covenants with regard to the equity ratio, which is why this is also regularly monitored at Group level.

## 21. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions are defined benefit obligations for former and current employees of the AlzChem Group. The provisions are formed on the basis of pension plans for commitments to old-age, disability and survivors' benefits. The

amount of individual pension benefits from the commitments is based on the wage or salary level and/or the position in the company hierarchy and the length of service. The duration of the benefit supplement is not limited during the lifetime of the beneficiary. The AlzChem Group is therefore exposed to the risks of future salary increases and longevity. The company regularly counters the risk of salary increases in collective bargaining and tries to keep the risk low. However, the risks are not significantly limited by the relatively low proportion of plan assets. The amount of the provision recognized exclusively in Germany is as follows as of the balance sheet dates:

in EUR thousand	12/31/2018	12/31/2019
Provisions for pensions	109,960	134,629

The present value of the pension obligations of the companies of the AlzChem Group based on defined benefit obligations developed as follows:

in EUR thousand	DBO	Plan assets	Provision
<b>As of 07/01/2018</b>	<b>107,383</b>	<b>163</b>	<b>107,218</b>
Effects from revaluation	1,650	-	1,650
thereof change in demographic assumptions	582	-	582
thereof change in financial assumptions	907	-	907
thereof experience-based adjustments	161	-	161
Interest expense	941	-	941
Current service cost	540	-	540
Pensions paid	-385	-	-385
Expected income from plan assets	-	5	-5
Payments from plan assets	-	0	0
<b>As of 12/31/2018</b>	<b>110,129</b>	<b>168</b>	<b>109,960</b>
<b>As of 01/01/2019</b>	<b>110,129</b>	<b>168</b>	<b>109,960</b>
Effects from revaluation	22,457	-	22,457
thereof change in demographic assumptions	0	-	0
thereof change in financial assumptions	22,629	-	22,629
thereof experience-based adjustments	-172	-	-172
Interest expense	2,088	-	2,088
Current service cost	1,133	-	1,133
Pensions paid	-1,005	-	-1,005
Expected income from plan assets	-	6	-6
Payments from plan assets	-	0	0
<b>As of 12/31/2019</b>	<b>134,802</b>	<b>174</b>	<b>134,629</b>

Reconciliation of obligations at provision value:

in EUR thousand	12/31/2018	12/31/2019
Defined benefit obligation not fund-financed	109,960	134,624
Defined benefit obligation fund-financed	168	178
<b>Subtotal</b>	<b>110,128</b>	<b>134,802</b>
Less fair value of plan assets	-168	-174
<b>Provisions for pensions and similar obligations</b>	<b>109,960</b>	<b>134,629</b>

The effects of the revaluation of the defined benefit obligations recognized in other accumulated equity in the fiscal year 2019 are as follows:

in EUR thousand	12/31/2018	12/31/2019
Change in demographic assumptions	582	0
Change in financial assumptions	907	22,629
Experience-based adjustments	161	-172
	<b>1,650</b>	<b>22,457</b>

The amounts recognized in the income statement in the reporting period are composed as follows:

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Interest expense	941	1,876	2,088
Service cost	540	1,081	1,133
Expected income from plan assets	-5	-5	-6
	<b>1,476</b>	<b>2,952</b>	<b>3,215</b>

\* Reporting, unaudited

The expected outflow of liquidity from pension obligations in the next year totals EUR 1,400 thousand (SFY 2018/II: EUR 1,157 thousand).

The current payments for employer contributions to the statutory pension scheme are shown as expenses for the

respective year in the operating result and amounted to a total of EUR 7,230 thousand in the Group in the fiscal year 2019 (SFY 2018/II: EUR 3,599 thousand; 2018 - reporting, unaudited: EUR 6,737 thousand).

The plan assets developed as follows:

in EUR thousand	12/31/2018	12/31/2019
<b>As of 07/01/2018 or 01/01/2019</b>	<b>163</b>	<b>168</b>
Expected income from plan assets	5	6
Payments from plan assets	0	0
<b>As of 12/31</b>	<b>168</b>	<b>174</b>

The plan assets consist entirely of a reinsurance policy for which there is no quoted market price in an active market.

A change in the three main factors affecting the present value of the pension obligation under otherwise unchanged assumptions would have the following effect on the present value of the pension obligation as of the balance sheet date:

#### Present value of the pension obligation in EUR thousand

<b>Discount rate</b>	
As of 12/31/2019: 0,90%	<b>134,802</b>
Increase to 1,00%	131,844
Decrease to 0,80%	137,844
<b>Wage and salary trend</b>	
As of 12/31/2019: 2,75%	<b>134,802</b>
Increase to 3,75%	142,340
Decrease to 1,75%	<b>129,387</b>
<b>Pension trend</b>	
As of 12/31/2019: 1,75%	<b>134,802</b>
Increase to 2,75%	153,590
Decrease to 0,75%	119,358

If pensioner mortality were to fall by 20%, the present value of the pension obligation would be EUR 144,692 thousand.

sensitivities, only one parameter was changed and all other assumptions were retained.

The same method was used to calculate the sensitivity of the DBO for the relevant actuarial assumptions (determination of the present value using the projected unit credit method) as for the calculation of the provisions for pensions, which are recorded in the consolidated balance sheet. In determining the

The weighted average term of the defined benefit obligation in relation to the present value of the pension obligation at the balance sheet date is as follows:

Present value of the pension obligation in EUR thousand	Average duration in years	Obligated company
134,573	23	AlzChem Trostberg GmbH/AlzChem Group AG
229	36	Nigu Chemie GmbH

Deferred tax assets of EUR 25,697 thousand (December 31, 2018: EUR 19,512 thousand) were recognized for the pension provisions recognized in the Group.

## 22. OTHER PROVISIONS (NON-CURRENT AND CURRENT)

in EUR thousand	Provisions for landfills	Provisions for personnel	Provisions for warranties from product sales	Provisions for subsequent customer fees/commissions	Other provisions	Total
<b>As of 07/01/2018</b>	<b>7,708</b>	<b>10,577</b>	<b>228</b>	<b>2,390</b>	<b>883</b>	<b>21,786</b>
Utilization	0	-784	0	-809	-215	-1,808
Additions	645	1,312	51	97	263	2,368
Release	0	-107	0	0	-411	-518
Reclassification	0	-523	0	0	0	-523
Interest accretion/ change in interest rates	64	45	0	0	0	109
Currency translation	0	2	0	0	1	3
<b>As of 12/31/2018</b>	<b>8,417</b>	<b>10,522</b>	<b>279</b>	<b>1,678</b>	<b>521</b>	<b>21,417</b>
Non-current	8,417	10,251	0	0	197	18,863
Current	0	271	279	1,678	324	2,554
<b>As of 12/31/2018</b>	<b>8,417</b>	<b>10,522</b>	<b>279</b>	<b>1,678</b>	<b>521</b>	<b>21,417</b>
<b>As of 01/01/2018*</b>	<b>7,297</b>	<b>10,098</b>	<b>228</b>	<b>64</b>	<b>965</b>	<b>18,652</b>
Utilization*	0	-1,461	0	-824	-330	-2,615
Additions*	1,100	2,955	51	2,470	292	6,868
Release*	0	-107	0	-32	-411	-550
Reclassification*	0	-928	0	0	0	-928
Interest accretion/ change in interest rates*	20	-32	0	0	2	-10
Currency translation*	0	-3	0	0	3	0
<b>As of 12/31/2018*</b>	<b>8,417</b>	<b>10,522</b>	<b>279</b>	<b>1,678</b>	<b>521</b>	<b>21,417</b>
Non-current*	8,417	10,251	0	0	197	18,863
Current*	0	271	279	1,678	324	2,554
<b>As of 12/31/2018*</b>	<b>8,417</b>	<b>10,522</b>	<b>279</b>	<b>1,678</b>	<b>521</b>	<b>21,417</b>
<b>As of 01/01/2019</b>	<b>8,417</b>	<b>10,522</b>	<b>279</b>	<b>1,678</b>	<b>521</b>	<b>21,417</b>
Utilization	-1	-1,888	-17	-69	-116	-2,091
Additions	256	3,132	0	800	804	4,992
Release	-9	-5	-15	-1,563	-208	-1,800
Reclassification	0	-846	0	0	0	-846
Interest accretion/ change in interest rates	1,731	737	0	0	0	2,467
Currency translation	0	-2	0	0	-2	-4
<b>As of 12/31/2019</b>	<b>10,394</b>	<b>11,650</b>	<b>247</b>	<b>846</b>	<b>999</b>	<b>24,136</b>
Non-current	10,394	11,380	0	0	631	22,404
Current	0	270	247	846	368	1,732
<b>As of 12/31/2019</b>	<b>10,394</b>	<b>11,650</b>	<b>247</b>	<b>848</b>	<b>999</b>	<b>24,136</b>

\* Reporting, unaudited

The provisions for landfills are related to legal requirements for the aftercare and recultivation of landfill sites. The provisions were formed on the basis of internal and, in some cases, external cost estimates (prepared by experts) and taking into account discounting appropriate to the term. The changes in the fiscal year 2019 resulted from changes in parameters and compounding. We expect the cash outflows from these non-current provisions to take place over a substantial period of time as part of the post-employment benefit obligations.

The provisions for personnel relate to provisions for long-service bonuses, provisions for annual leave in the event of retirement and other social benefits for employees. They are recognized on the basis of actuarial assumptions and discounting in line with their maturities.

The provisions for warranties from product sales are formed on the basis of experience. The recognition is reviewed annually and adjusted to reflect current developments.

The provisions for subsequent customer fees and commissions are related to supply contracts with customers in force after the balance sheet date to which subsequent price discounts are granted if certain minimum purchase quantities are exceeded.

Other provisions mainly relate to provisions for other fees not yet invoiced. These relate to social security and accident insurance contributions for temporary staff and IHK contributions.

### 23. LOAN LIABILITIES TO BANKS

in EUR thousand	12/31/2018	12/31/2019
Remaining term on the balance sheet date of less than one year	25,353	11,935
thereof current portion of loan liabilities	7,187	11,935
Remaining term on the balance sheet date of more than one year	32,577	50,747
	<b>57,930</b>	<b>62,682</b>

The non-current loan liabilities to banks have fixed interest rates of between 1.15% and 2.65% and were granted in the fiscal years 2013, 2015 and 2019. The loans are repaid quarterly with a final repayment on September 30, 2027. Apart from the non-current loans, no other current financing lines were utilized as of December 31, 2019. As of the balance sheet date of the previous year, current money market loans in the amount of EUR 18,167 thousand were taken out with banks to

cover liquidity peaks. These money market loans, which were denominated in full in EUR, were due within one month and carried a fixed interest rate of between 0.52% and 0.75%.

Based on the usual payment agreements with the banks, the maturities and thus the cash outflow from current loan liabilities to banks are as follows:

in EUR thousand	12/31/2018	12/31/2019
<b>Carrying amount</b>	<b>25,353</b>	<b>11,935</b>
thereof due in the following periods:		
< 30 days	18,167	0
30 - 90 days	1,400	2,984
90 - 180 days	1,400	2,984
180 days - 1 year	4,386	5,967

The loan liabilities to banks are secured by property, plant and equipment with a carrying amount of EUR 15,364 thousand

(December 31, 2018: EUR 16,135 thousand) as of the balance sheet date. All liabilities to banks are denominated in euro.

The loan liabilities developed as follows in the reporting period:

in EUR thousand	Current loan liabilities	Non-current loan liabilities
<b>In the period from 01/01-12/31/2018</b>		
<b>As of 01/01/2018*</b>	<b>22,122</b>	<b>19,203</b>
Cash-effective change*		
Repayment*	-6,539	0
Borrowing*	2,585	20,560
Non-cash change*		
Accrued interest*	0	0
Reclassification*	7,186	-7,186
<b>As of 12/31/2018*</b>	<b>25,353</b>	<b>32,577</b>
<b>In the period from 07/01-12/31/2018</b>		
<b>As of 07/01/2018</b>	<b>22,268</b>	<b>16,403</b>
Cash-effective change		
Repayment	-3,885	0
Borrowing	2,585	20,560
Non-cash change		
Accrued interest	0	0
Reclassification	4,386	-4,386
<b>As of 12/31/2018</b>	<b>25,353</b>	<b>32,577</b>
<b>In the period from 01/01-12/31/2019</b>		
<b>As of 01/01/2019</b>	<b>25,353</b>	<b>32,577</b>
Cash-effective change		
Repayment	-25,351	0
Borrowing	0	30,102
Non-cash change		
Accrued interest	0	0
Reclassification	11,932	-11,932
<b>As of 12/31/2019</b>	<b>11,935</b>	<b>50,747</b>

\* Reporting, unaudited

## 24. TRADE PAYABLES

Based on the usual payment agreements with suppliers and other business partners, the maturities and thus the cash outflow of current trade payables are as follows:

in EUR thousand	12/31/2018	12/31/2019
<b>Carrying amount</b>	<b>30,863</b>	<b>24,069</b>
thereof due in the following periods:		
< 30 days	28,005	21,135
30 - 90 days	1,471	1,889
90 - 180 days	108	121
180 days - 1 year	1,279	924

Due to the international activities of the Group, trade payables include the following foreign currency liabilities translated into the Group currency EUR as of the balance sheet dates:

in EUR thousand	12/31/2018	12/31/2019
<b>Total</b>	<b>4,386</b>	<b>2,613</b>
USD	1,766	1,362
SEK	1,618	1,015
CNY	999	229
JPY	2	2
Other	1	5

Apart from the usual country-specific retention of title, no collateral has been provided for the trade payables reported. As of the balance sheet dates, no trade payables were overdue.

## 25. OTHER LIABILITIES

The details of other current liabilities are as follows:

in EUR thousand	12/31/2018	12/31/2019
<b>Personnel liabilities</b>	<b>12,091</b>	<b>12,122</b>
Liabilities from energy taxes	3,632	2,933
Other tax liabilities	1,749	1,924
Liabilities from bonus settlements to customers	1,254	1,289
Liability to the employers' liability insurance association	975	0
Other	1,158	904
	<b>20,859</b>	<b>19,172</b>

Other current liabilities include other financial liabilities amounting to EUR 4,379 thousand (December 31, 2018:

EUR 6,191 thousand). This includes the following amounts in foreign currency converted into euro:

in EUR thousand	12/31/2018	12/31/2019
<b>Total</b>	<b>175</b>	<b>216</b>
USD	76	146
CNY	29	0
JPY	70	0
Other	0	70

The maturities and thus the cash outflow of current financial liabilities are as follows:

in EUR thousand	12/31/2018	12/31/2019
<b>Carrying amount</b>	<b>6,191</b>	<b>4,379</b>
thereof due in the following periods:		
< 30 days	275	107
30 - 90 days	1,280	373
90 - 180 days	4,007	3,255
180 days - 1 year	629	644

On the balance sheet date, non-current other liabilities amounted to EUR 513 thousand (December 31, 2018: EUR 513 thousand). These include financial liabilities in full and are denominated in EUR on both balance sheet dates.

## 26. INCOME TAX LIABILITIES

Income tax liabilities include EUR 1,871 thousand domestic (December 31, 2018: EUR 1,512 thousand) and EUR 0 thousand foreign income tax liabilities (December 31, 2018: EUR 16 thousand).

## 27. CASH FLOW STATEMENT

The cash flow statement shows how the cash and cash equivalents of the AlzChem Group have changed in the year under review and in the SFY 2018/II. Cash and cash equivalents are defined as cash and cash equivalents less cash with limited availability.

In accordance with IAS 7, cash flows are classified according to cash inflow/outflow from operating activities, investing activities and financing activities.

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Cash flow from operating activities (net cash flow)	19,219	34,655	43,631
Cash outflow from investing activities	-24,161	-39,885	-41,327
<b>Free cash flow</b>	<b>-4,942</b>	<b>-5,230</b>	<b>2,304</b>
Cash outflow (-)/cash inflow (+) from financing activities	7,992	5,250	-6,173
<b>Net decrease (-)/increase (+) in cash and cash equivalents</b>	<b>3,050</b>	<b>20</b>	<b>-3,869</b>

\* Reporting, unaudited

The cash flow statement is prepared using the indirect method.

Cash and cash equivalents as of December 31, 2019 amount to EUR 9,061 thousand (December 31, 2018: EUR 12,857 thousand) and comprise immediately available bank balances, checks and cash on hand.

Other non-cash income and expenses of EUR 6,246 thousand (SFY 2018/II: EUR 625 thousand; 2018 - reporting, unaudited: EUR 5,341 thousand) mainly include write-downs on inventories and additions to or reversals of pension provisions, other provisions and liabilities. There were no other material non-cash business transactions.

There were no company acquisitions in the reporting periods presented.

## 28. RISK MANAGEMENT AND USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The finance department of AlzChem Trostberg GmbH monitors and controls the financial risks of the entire AlzChem Group. These are in particular the following:

- liquidity risks
- market risks (interest and currency risks)
- credit risks

Due to its activities, the AlzChem Group is exposed to a variety of financial risks. By risk, we mean unexpected events and possible developments that have a negative impact on the achievement of defined goals and expectations. Relevant are risks with a significant influence on the net assets, financial

position and results of operations. The risk management system of the AlzChem Group analyzes various risks and attempts to minimize negative effects on the financial situation of the company. Risk management is carried out in the area of finance in accordance with existing guidelines.

In order to measure and control significant individual risks, the Group distinguishes between liquidity, credit and market risks.

### LIQUIDITY RISKS

We define liquidity risk in the narrower sense as the risk of not being able to meet current or future payment obligations or only being able to meet them on unfavorable terms. The company generates financial resources primarily through its operating business.

AlzChem Trostberg GmbH acts as the financial coordinator for the companies of the AlzChem Group in order to ensure that the financial requirements for the operating business and for investments are covered as cost-effectively as possible and that the amounts involved are always sufficient. The necessary information is provided and continuously analyzed via a Group financial planning system with additional weekly rolling 14-day liquidity planning.

The long-term corporate financing of the AlzChem Group is ensured by the current cash flow from operating activities and sufficient short- and long-term external financing.

Short-term liquidity surpluses of individual Group companies are used for internal financing of the cash requirements of other Group companies by means of intra-Group financial clearing. This contributes to a reduction in external borrowing and an optimization of cash and capital investments and thus has a positive impact on the Group's interest income.

At the level of the AlzChem Group, consolidated and integrated liquidity planning is prepared based on the latest corporate planning/forecast, including any one-off effects that can be identified at short notice.

The AlzChem Group is financed primarily by the Group's liquid funds generated in the operating business. In addition, there are credit lines with the principal banks in the amount of EUR 45,000 thousand (December 31, 2018: EUR 37,500 thousand), which were not utilized in full as of the balance sheet date (December 31, 2018: EUR 19,333 thousand). Non-current loans were concluded in the fiscal years 2011, 2013, 2015 and 2017 to finance investments. In the fiscal year 2019, the last tranche of the financing commitment from 2017 (EUR 50,730 thousand) in the amount of EUR 30,102 thousand was paid out and thus fully utilized.

As of the balance sheet date, the outstanding loan balance related to these non-current financing arrangements amounted to EUR thousand 62,682 (December 31, 2018: EUR 39,763 thousand). The current portion of these loan liabilities amounted to EUR 11,935 thousand on the balance sheet date (December 31, 2018: EUR 7,187 thousand). As of the balance sheet date December 31, 2019, no further current financing lines were utilized (December 31, 2018: EUR 18,167 thousand). Other current financial liabilities from primary financial instruments amounted to EUR 28,448 thousand on the balance sheet date (December 31, 2018: EUR 37,054 thousand).

The sale of customer receivables to a factor is used as a further current financing instrument. The maximum factoring volume for the entire period under review was EUR 30 million. The receivables sold within the scope of factoring as of the balance sheet date, reduced by the agreed retentions, amount to EUR 15,314 thousand (December 31, 2018: EUR 15,755 thousand).

## MATURITY ANALYSIS OF FINANCIAL LIABILITIES

The following table shows the maturity structure of the contractual, undiscounted cash flows from interest and principal payments of primary financial liabilities:

12/31/2018 in EUR thousand	Until 1 year	1 – 5 years	Over 5 years	Total
Loan liabilities to banks	26,254	41,280	24,374	91,908
Trade payables	30,863	0	0	30,863
Other financial liabilities	6,191	513	0	6,704
<b>Total</b>	<b>63,308</b>	<b>41,793</b>	<b>24,374</b>	<b>129,475</b>

12/31/2019 in EUR thousand	Until 1 year	1 – 5 years	Over 5 years	Total
Loan liabilities to banks	12,765	35,080	17,742	65,587
Trade payables	24,069	0	0	24,069
Other financial liabilities	4,379	513	0	4,892
<b>Total</b>	<b>41,213</b>	<b>35,593</b>	<b>17,742</b>	<b>94,548</b>

The undiscounted cash flows shown in the previous year as of December 31, 2018 were offset by EUR 30,170 thousand in cash inflows from the full payment of the new loans granted in the fiscal year 2017 in the first quarter of 2019.

The AlzChem Group has not violated any payment agreements with regard to its financial liabilities.

The undiscounted cash outflows are subject to the condition that the repayment of liabilities is related to the earliest maturity date.

A more detailed presentation of the maturity range „up to 1 year“ is provided for loan liabilities to banks in note 23, for trade payables in note 24 and for other financial liabilities in note 25.

Of the total primary financial liabilities of EUR 91,643 thousand (December 31, 2018: EUR 95,497 thousand) reported by the Group as of December 31, 2019, EUR 15,364 thousand (December 31, 2018: EUR 16,135 thousand) or 17% (December 31, 2018: 17%) are secured by collateral.

The collateral consists of the following:

12/31/2018	Loan liabilities to banks in EUR thousand
Land and buildings	11,000
Technical equipment and machinery	5,135
<b>Total</b>	<b>16,135</b>

12/31/2019	Loan liabilities to banks in EUR thousand
Land and buildings	11,000
Technical equipment and machinery	4,364
<b>Total</b>	<b>15,364</b>

In addition, the majority of the companies are supplied under country-specific retention of title.

The following risk concentrations result when the primary financial liabilities are broken down by region:

	12/31/2018		12/31/2019	
	EUR thousand	%	EUR thousand	%
<b>Total</b>	<b>95,497</b>	<b>100</b>	<b>91,643</b>	<b>100</b>
Germany	85,284	89	84,331	92
Europe – EU (without Germany)	6,305	7	4,362	5
Europe – Other	977	1	1,160	1
Rest of the world	2,931	3	1,790	2

## CREDIT RISKS

Credit risks arise from the total or partial loss of a customer, for example due to insolvency, and in connection with financial investments. The maximum default risk is equal to the carrying amounts of all financial assets. Valuation allowances on trade receivables and other receivables and assets are recognized according to uniform Group rules and cover all identifiable credit risks.

As part of the risk management system, minimum creditworthiness requirements and individual maximum exposure limits are defined for all business partners of the AlzChem Group. The level of the credit limit reflects the creditworthiness of a contractual party and the typical size of the transaction volume with this contractual party. The basis

for this is a limit system laid down in the treasury guidelines, which is based on the ratings of international rating agencies and on internal credit assessments on the one hand, and on experience gained internally with the respective contracting parties on the other. In addition, the specific limits of trade credit insurance are taken into account for each customer. The AlzChem Group is therefore only exposed to creditworthiness risks to a very small extent.

The following table shows the maximum default risk and the collateral held by the AlzChem Group, broken down by balance sheet item and valuation category as of the balance sheet dates December 31, 2018 and December 31, 2019:

12/31/2018	Maximum default risk		Collateral held	Calculated risk
	EUR thousand	EUR thousand		
<b>Balance sheet item/valuation category</b>				
<b>Financial assets</b>				
At fair value through profit or loss	20	0	0	20
<b>Other receivables and other assets</b>				
At amortized cost	11,781	0	0	11,781
<b>Trade receivables</b>				
At amortized cost	13,856	3,430	25	10,426
At fair value through other comprehensive income	20,495	8,555	42	11,940
<b>Cash and cash equivalents</b>				
At amortized cost	12,857	0	0	12,857
<b>Total financial assets</b>	<b>59,009</b>	<b>11,985</b>	<b>20</b>	<b>47,024</b>

12/31/2019	Maximum default risk		Collateral held	Calculated risk
	EUR thousand	EUR thousand		
<b>Balance sheet item/valuation category</b>				
<b>Financial assets</b>				
At fair value through profit or loss	20	0	0	20
<b>Other receivables and other assets</b>				
At amortized cost	11,182	0	0	11,182
<b>Trade receivables</b>				
At amortized cost	6,202	130	2	6,072
At fair value through other comprehensive income	26,299	14,459	55	11,840
<b>Cash and cash equivalents</b>				
At amortized cost	9,061	0	0	9,061
<b>Total financial assets</b>	<b>52,764</b>	<b>14,589</b>	<b>28</b>	<b>38,175</b>

The full amount of collateral is provided by trade credit insurance.

As explained under IV. Notes to the principles and methods of the consolidated financial statements, recognizable default risks in the receivables portfolio are generally taken into account by recognizing adequate valuation allowances. The development of valuation allowances on trade receivables is shown in note 17.

The following table shows the concentration of default risk in the default risk classes of financial assets monitored by AlzChem, broken down by balance sheet item and valuation category.

12/31/2018 in EUR thousand	Gross carrying amount	Not due	Overdue in the following periods		
			1 - 30	31 - 120	>120
<b>Balance sheet item/valuation category</b>					
<b>Financial assets</b>					
At fair value through profit or loss	20	20	0	0	0
<b>Other receivables and other assets</b>					
At amortized cost	11,781	11,781	0	0	0
<b>Trade receivables</b>					
At amortized cost	13,971	10,371	916	193	2,491
At fair value through other comprehensive income	20,987	19,816	413	266	493
<b>Cash and cash equivalents</b>					
At amortized cost	12,857	12,857	0	0	0
<b>Total financial assets</b>	<b>59,616</b>	<b>54,845</b>	<b>1,329</b>	<b>459</b>	<b>2,984</b>

12/31/2019 in EUR thousand	Gross carrying amount	Not due	Overdue in the following periods		
			1 - 30	31 - 120	>120
<b>Balance sheet item/valuation category</b>					
<b>Financial assets</b>					
At fair value through profit or loss	20	20	0	0	0
<b>Other receivables and other assets</b>					
At amortized cost	11,182	11,182	0	0	0
<b>Trade receivables</b>					
At amortized cost	6,218	5,296	671	247	4
At fair value through other comprehensive income	26,872	24,860	984	332	696
<b>Cash and cash equivalents</b>					
At amortized cost	9,061	9,061	0	0	0
<b>Total financial assets</b>	<b>53,353</b>	<b>50,419</b>	<b>1,655</b>	<b>579</b>	<b>700</b>

A breakdown of the Group's total financial assets by region shows the following concentrations of risk:

12/31/2018	12/31/2018		12/31/2019	
	EUR thousand	%	EUR thousand	%
<b>Total</b>	<b>59,009</b>	<b>100</b>	<b>52,764</b>	<b>100</b>
Germany	33,978	58	25,260	48
Europe - EU (without Germany)	6,035	10	7,925	15
Europe - Other	805	1	755	1
Rest of the world	18,191	31	18,824	36

## MARKET RISKS (INTEREST AND CURRENCY RISKS)

We define market risk as the risk of a loss that may arise as a result of a change in market parameters (currency, interest rate, price) relevant to valuation.

### Currency risks

The Group operates internationally and as a result is exposed to foreign exchange risk arising from fluctuations in the exchange rates of various foreign currencies. Foreign exchange risk arises from anticipated future transactions, recognized assets and liabilities and net investments in foreign operations.

The AlzChem Group partially uses hedging transactions to hedge currency risks from future transactions. However, no hedging transactions were used in the periods currently presented.

Of the primary financial instruments reported in the Group, EUR 17,740 thousand (December 31, 2018: EUR 28,412 thousand) relate to financial assets in foreign currencies and EUR 2,829 thousand (December 31, 2018: EUR 4,561 thousand) to financial liabilities denominated in foreign currencies. The concentration of risk related to foreign currencies is as follows:

Financial Assets	12/31/2018		12/31/2019	
	EUR thousand	%	EUR thousand	%
<b>Total</b>	<b>28,412</b>	<b>100</b>	<b>17,740</b>	<b>100</b>
USD	13,127	46	8,754	49
JPY	2,517	9	2,435	14
SEK	4,967	17	3,790	21
CNY	7,798	27	2,580	15
Other	3	0	181	1

Financial Assets	12/31/2018		12/31/2019	
	EUR thousand	%	EUR thousand	%
<b>Total</b>	<b>4,561</b>	<b>100</b>	<b>2,829</b>	<b>100</b>
USD	1,842	40	1,508	53
SEK	1,618	35	1,015	36
JPY	71	2	1	0
CNY	1,029	23	229	8
Other	1	0	76	3

In order to illustrate currency risks, sensitivity analyses were carried out as of the reporting dates, showing the effects of hypothetical changes in relevant risk variables on earnings and equity. The periodic effects are determined by relating the hypothetical changes in risk variables to the portfolio of financial instruments on the balance sheet date. It is assumed that the portfolio on the balance sheet date is representative for the entire year. For the analysis of currency sensitivities, only the USD, JPY, CNY and SEK, which are significant for the AlzChem Group, were used.

As of the balance sheet date, the AlzChem Group is subject to currency risks, which are mainly reflected in the balance sheet items trade receivables, trade payables and cash and cash equivalents.

If the euro had been revalued or devalued by 10% compared to the major foreign currencies in which the AlzChem Group operates as of December 31, 2019, the reported equity in functional currency would have changed by EUR -1,346 thousand (December 31, 2018: EUR 2,167 thousand) and EUR 1,645 thousand (December 31, 2018: EUR 2,650 thousand) respectively.

The hypothetical effect on earnings (before taxes) of EUR -1,346 thousand (December 31, 2018: EUR 2,167 thousand) and EUR 1,645 thousand (December 31, 2018: EUR 2,650 thousand) is derived in detail from the following currency sensitivities:

	12/31/2018		12/31/2019	
	+10%	-10%	+10%	-10%
<b>P&amp;L total</b>	<b>-2,167</b>	<b>2,650</b>	<b>-1,346</b>	<b>1,645</b>
EUR/USD	-1,026	1,254	-659	805
EUR/SEK	-304	372	-252	308
EUR/JPY	-222	272	-221	271
EUR/CNY	-615	752	-214	261
<b>Total other comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total effect on equity</b>	<b>-2,167</b>	<b>2,650</b>	<b>-1,346</b>	<b>1,645</b>

### Interest rate risks

Interest rate risks can arise primarily from changes in market interest rates, which lead to changes in expected cash flows. To minimize interest rate risks, loans are only taken out or concluded on a long-term basis and at fixed interest rates if necessary. Non-current and current loan liabilities to banks have fixed interest rates and are therefore not subject to interest rate risks.

### Price risks

Price risks arise mainly in the purchasing area from changes in the market prices of raw materials, electricity and gas. Price volatility is counteracted here in particular by forward transactions and price escalation clauses. The forward transactions relate to the purchase of electricity exclusively for proprietary use.

## CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled,

between knowledgeable, willing parties in an arm's length transaction. The following table shows the carrying amounts and fair values of financial assets per measurement category in accordance with IFRS 9:

12/31/2018	At amortized cost	At fair value		Total amount	
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income with subsequent reclassification to the income statement	Financial assets at fair value through profit or loss	Carrying amount	Fair value
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair value
Financial assets	-	-	20	20	20
Other receivables and other assets	11,781	-	-	11,781	11,781
Trade receivables	13,856	20,495	-	34,351	34,351
Cash and cash equivalents	12,857	-	-	12,857	12,857
<b>Total financial assets</b>	<b>38,494</b>	<b>20,495</b>	<b>20</b>	<b>59,009</b>	<b>59,009</b>

12/31/2019 in EUR thousand	At amortized cost	At fair value		Total amount	
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income with subsequent reclassification to the income statement	Financial assets at fair value through profit or loss	Carrying amount	Fair value
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Carrying amount	Fair value
Financial assets	-	-	20	20	20
Other receivables and other assets	11,182	-	-	11,182	11,182
Trade receivables	6,202	26,299	-	32,501	32,501
Cash and cash equivalents	9,061	-	-	9,061	9,061
<b>Total financial assets</b>	<b>26,445</b>	<b>26,299</b>	<b>20</b>	<b>52,764</b>	<b>52,764</b>

The following table shows the carrying amounts and fair values of financial liabilities by measurement category in accordance with IFRS 9:

12/31/2018 in EUR thousand	At amortized cost		Total amount	
	Financial liabilities measured at amortized cost	Valuation according to IAS 17	Carrying amount	Fair value
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Fair value
Loan liabilities to banks	57,930	-	57,930	61,233
Obligations from finance leases	-	-	0	0
Trade payables	30,863	-	30,863	30,863
Financial liabilities	-	-	-	-
Other liabilities	6,704	-	6,704	6,704
<b>Total financial liabilities</b>	<b>95,497</b>	<b>-</b>	<b>95,497</b>	<b>98,800</b>

12/31/2019 in EUR thousand	At amortized cost		Total amount	
	Financial liabilities measured at amortized cost	Valuation according to IAS 17	Carrying amount	Fair value
Balance sheet item	Carrying amount	Carrying amount	Carrying amount	Fair value
Loan liabilities to banks	62,682	62,682	66,102	
Trade payables	24,069	24,069	24,069	
Financial liabilities	0	0	0	
Other liabilities	4,892	4,892	4,892	
<b>Total financial liabilities</b>	<b>91,643</b>	<b>91,643</b>	<b>95,063</b>	

The fair values of the financial instruments were determined on the basis of the market information available on the balance sheet date and using the methods and premises described below.

Due to the short-term maturities of the financial assets, it is assumed that the fair values approximate the carrying amounts.

The balance sheet items trade payables and other liabilities generally include liabilities with regularly short remaining terms, so that it is assumed that the fair values correspond approximately to the carrying amounts shown.

The items loan liabilities to banks and liabilities from finance leases comprise current and non-current financial liabilities. The fair values of liabilities with remaining terms of more than one year are determined by discounting the cash flows associated with the liabilities, taking into account the current interest rate parameters observable on the market. The individual creditworthiness of the Group in the form of creditworthiness or liquidity spreads customary in the market

are taken into account in the present value calculation. This procedure corresponds to level 2 in the hierarchy level of IFRS 13.

Certain financial assets are measured recurrently at fair value and allocated to the corresponding categories of IFRS 9. The following table shows these financial assets and their measurement level according to IFRS 13:

#### 12/31/2018 in EUR thousand

Assets	Level 2	Level 3	Total
<b>Trade receivables</b>			
Measured at fair value through other comprehensive income	20,495	-	20,495
<b>Financial assets</b>			
At fair value through profit or loss	-	20	20
<b>Total assets</b>	<b>20,495</b>	<b>20</b>	<b>20,515</b>

#### 12/31/2019 in EUR thousand

Assets	Level 2	Level 3	Total
<b>Trade receivables</b>			
Measured at fair value through other comprehensive income	26,299	-	26,299
<b>Financial assets</b>			
At fair value through profit or loss	-	20	20
<b>Total assets</b>	<b>26,299</b>	<b>20</b>	<b>26,319</b>

Financial liabilities were not recognized at fair value in the reporting period.

No reclassifications between the individual hierarchies for determining fair values were made in the reporting period.

The fair value of trade receivables measured at fair value through other comprehensive income is allocated to level 2. The fair values of trade receivables measured at fair value are derived by reference to transactions in comparable instruments. In particular, the transaction prices are used in

the context of sales of receivables, where the buyer regularly refers to the nominal value. In case of a default event, these values are adjusted for the impairment loss.

The AlzChem Group holds an investment in the category "measured at fair value through profit or loss", the fair value of which is attributable to level 3. There were no changes through additions or disposals in the reporting period. In the absence of reliable input parameters for a more complex model and due to the minor importance of these investments for the AlzChem Group, the market value was estimated on

the basis of acquisition costs. A deviation of the actual market value from this estimated value within a realistic range would not have a significant effect on the significance of the item for the AlzChem Group or on the net assets, financial position and results of operations of the AlzChem Group. In the reporting period, income of EUR 102 thousand (SFY 2018/II: EUR 41 thousand) was recognized from these financial assets, which was reported within the financial result.

#### NET RESULT FROM FINANCIAL INSTRUMENTS BY VALUATION CATEGORY

The following tables show the net gains or losses on financial instruments recognized in the income statement and in other comprehensive income by measurement category:

07/01–12/31/2018 in EUR thousand	Interest	Currency translations	Impairments/ write-ups	Investment income	Net result P&L	Other comprehensive income
Financial assets measured at amortized cost	87	-141	-24	0	-78	0
Financial assets at fair value through profit or loss	0	0	0	41	41	0
Financial assets measured at fair value through other comprehensive income	0	658	1	0	659	0
Financial liabilities measured at amortized cost	-318	-272	0	0	-590	0
	<b>-231</b>	<b>245</b>	<b>-23</b>	<b>41</b>	<b>32</b>	<b>0</b>

01/01/ – 12/31/2019 in EUR thousand	Interest	Currency translations	Impairments/ write-ups	Investment income	Net result P&L	Other comprehensive income
Financial assets measured at amortized cost	121	-322	-98	0	-299	0
Financial assets at fair value through profit or loss	0	0	0	102	102	0
Financial assets measured at fair value through other comprehensive income	0	-244	80	0	-164	2
Financial liabilities measured at amortized cost	-652	234	0	0	-418	0
	<b>-531</b>	<b>-332</b>	<b>-18</b>	<b>102</b>	<b>-779</b>	<b>2</b>

No interest income was received from impaired trade receivables in the reporting period.

## DERIVATIVES AND HEDGE ACCOUNTING

The AlzChem Group partially uses hedging transactions to hedge currency risks from future transactions. However, no hedging transactions were used in the periods currently presented.

## 29. COMPANY ACQUISITIONS

There were no company acquisitions to be shown in the periods currently presented.

## VIII. OTHER EXPLANATORY NOTES

### 30. OTHER FINANCIAL OBLIGATIONS

#### PRESENTATION AS OF DECEMBER 31, 2019

Since, due to the first-time application of IFRS 16 Leases, future leasing payments are largely reflected in the balance sheet as leasing liabilities, other financial obligations of the AlzChem Group still exist for maintenance and service contracts for machinery and equipment, software and other operating and office equipment as well as for purchase commitments. These are as follows as of December 31, 2019:

12/31/2019 in EUR thousand	Until 1 year	1 to 5 years	Over 5 years	Total
Maintenance and service contracts	520	258	0	778

As of December 31, 2019, there were purchase commitments in the amount of EUR 77,843 thousand. These consist primarily of long-term purchase commitments for lime and electricity supplies as well as for property, plant and equipment.

Since the past fiscal year 2019, the disclosures on leases in accordance with IFRS 16 have been included in the separate note 12 Leasing.

#### PRESENTATION AS OF DECEMBER 31, 2018

As of the balance sheet date of December 31, 2018, there were other financial obligations from rental, lease, leasing and service agreements that cannot be terminated until the end of their term and which the Group has entered into in the course of ordinary business activities. In accordance with the requirements of IAS 17 Leases valid until December 31, 2018, these also included obligations from operating leases, which have already been largely recognized as obligations under leasing liabilities since the fiscal year 2019 in accordance with the new provisions of IFRS 16 Leases. The total future payments from the contracts are broken down by due date as follows:

12/31/2018 in EUR thousand	Until 1 year	1 to 5 years	Over 5 years	Total
Rental and leasing obligations	2,891	3,537	0	6,428
Other obligations	1,380	422	13	1,815
<b>Total</b>	<b>4,271</b>	<b>3,959</b>	<b>13</b>	<b>8,243</b>

The total amount of rental and leasing obligations from operating lease agreements amounting to EUR 6,428 thousand was divided between rental and leasing agreements for land,

buildings and office space amounting to EUR 331 thousand and operating lease agreements for technical equipment and machinery amounting to EUR 5,278 thousand.

The other financial obligations of EUR 1,815 thousand include maintenance and service agreements for machinery and equipment, software and other operating and office equipment.

As of the balance sheet date of December 31, 2018, there were also purchase commitments of EUR 55,312 thousand,

consisting primarily of long-term purchase commitments for lime and electricity supplies and for the new production plant under construction at that time.

The total future cash inflows from minimum leasing payments from leased properties amounted to EUR 5,245 thousand as of December 31, 2018 and were as follows:

12/31/2018 in EUR thousand	Until 1 year	1 – 5 years	Over 5 years	Total
Minimum leasing payments from operating lease agreements	1,371	1,577	2,297	5,245
<b>Total</b>	<b>1,371</b>	<b>1,577</b>	<b>2,297</b>	<b>5,245</b>

### 31. CONTINGENT LIABILITIES

There are liabilities of EUR 2.1 million until 2038 for possible environmental obligations from the sale of the alloy business in 2008. However, due to the industrial structure at the site, the company excludes such a risk.

### 32. CORPORATE BODIES

The following persons were appointed as members of the Management Board of AlzChem Group AG during the reporting period:

- Ulli Seibel, graduate industrial engineer (CEO until June 30, 2019; from July 1, 2019 to December 31, 2019 Management Board Member Projects),
- Klaus Englmaier, graduate industrial engineer (COO),
- Andreas Niedermaier, graduate industrial engineer (FH) (until June 30, 2019 CFO; since July 1, 2019 CEO)
- Dr. Georg Weichselbaumer, chemist (CSO since July 1, 2019).

The members of the Management Board are the persons in key positions of the AlzChem Group in accordance with IAS 24. The remuneration of the members of the Management Board totaled EUR 2,662 thousand in the reporting period (SFY 2018/II: EUR 792 thousand; 2018 - reporting, unaudited: EUR 1,747 thousand). The remuneration can be broken down as follows:

	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Fixed remuneration	340	680	835
Bonus	390	889	945
Remuneration in kind/other remuneration	24	47	652
Post-employment benefits	38	131	153
Share-based payment (long-term incentive)	0	0	77
	<b>792</b>	<b>1,747</b>	<b>2,662</b>

\* Reporting, unaudited

The resulting outstanding balances as of December 31, 2019 amount to EUR 1,545 thousand (December 31, 2018: EUR 390 thousand) and are reported under other current liabilities. Provisions for post-employment benefits for the members of the Management Board amount to EUR 1,242 thousand (December 31, 2018: EUR 1,015 thousand) and are shown under provisions for pensions and similar obligations. The provision for share-based payments in the amount of EUR 77 thousand (December 31, 2018: EUR 5 thousand) is part of the non-current other provisions. The individual remuneration is included in the remuneration report in the management report.

The Supervisory Board of the Group parent company AlzChem Group AG, consisting of four members, meets at least once every six months in accordance with the articles of association.

The following persons were members of the Supervisory Board in the year under review:

- Markus Zöllner (Chairman),
- Steve Röper,
- Prof. Dr. Martina Heigl-Murauer,
- Dr. Caspar Freiherr von Schnurbein.

The members of the Supervisory Board, Markus Zöllner, Steve Röper, Prof. Dr. Martina Heigl-Murauer and Dr. Caspar Freiherr von Schnurbein, were also appointed to the Supervisory Board of AlzChem Trostberg GmbH throughout the entire reporting period. In addition, the employee representatives Karl Held and Otto Wolf were members of the Supervisory Board of AlzChem Trostberg GmbH throughout the entire reporting period. The above-mentioned Supervisory Board members are also persons in key positions within the AlzChem Group in accordance with IAS 24. Their remuneration amounted to EUR 158 thousand (SFY 2018/II: EUR 75 thousand; 2018 - reporting, unaudited: EUR 158 thousand), which led to outstanding balances on the reporting date of EUR 158 thousand (December 31, 2018: EUR 158 thousand). The employee representatives on the Supervisory Board of AlzChem Trostberg GmbH received remuneration in line with market rates for their activities.

### 33. SHARE-BASED REMUNERATION

#### Stock appreciation rights 2019

In the fiscal year 2019, the Management Board members Andreas Niedermaier, Klaus Englmaier and Dr. Georg Weichselbaumer concluded new Management Board contracts which, among other things, regulates the granting of stock appreciation rights (Stock Appreciation Rights 2019). As a long-term incentive, the members of the Management Board receive a certain number of stock appreciation rights (SAR) with a multi-year assessment basis. SAR do not entitle the holder to transfer shares, but to payment of a bonus (LTI) if the average closing price of the AlzChem Group AG share in the last 30 trading days before the respective exercise date (plus dividends granted up to that date) is higher than the average closing price of the AlzChem Group AG share in the 60 trading days before January 1, 2020 (whereby this "base price" increases by three percentage points each year from January 1, 2020). In the two (or three) exercise periods in January 2023, 2024 (or 2025), depending on the Management Board member, a certain portion of the SAR can be exercised, i.e. converted into a cash amount to be paid out as a bonus within six weeks of the end of the respective exercise period, provided the conditions for this are met. SAR not redeemed at the end of the last exercise period expire. The entitlement to receive SAR is linked to the acquisition of a certain number of AlzChem shares by the end of fiscal year 2019 ("Treasury Shares 1"). If the bonus exceeds a contractually agreed maximum amount, the bonus is capped at this amount; the bonus in excess of the maximum amount is forfeited.

In addition, all members of the Management Board will receive a one-time special bonus paid in cash for services rendered in the fiscal year 2019, which is also linked to the acquisition of Treasury Shares 1 by the Management Board members by the end of the fiscal year 2019.

In addition, each Management Board member is obliged to acquire a further tranche of shares in the company („Treasury Shares 2") by the end of the 2020 fiscal year.

If the Treasury Shares 1 or 2 are sold by the Management Board member before the end of the last (= third) exercise period of the SAR, the company is entitled to demand a compensation payment from the Management Board member depending on the number of shares sold.

A total of 250,000 SAR were granted to members of the Management Board in fiscal year 2019.

As of December 31, 2019, the number of SAR granted (2019) was 250,000. The fair value was determined on the basis of a Monte Carlo model and the expense reported under personnel expenses was distributed on a straight-line basis from the grant date to the beginning of the exercise period. In fiscal year 2019, personnel expenses of EUR 77 thousand were recognized from this plan, which led to a provision in the same amount. The valuation was based on the following parameters:

	12/31/2019
Remaining term (in years)	3.1 - 4.1
Expected volatility	24.14% - 23.2%
Risk-free interest rate	-0.54%
Exercise price (variable over time)	EUR 21.15
Share price at valuation date	EUR 21.40

As the members of the Management Board are entitled to payment of dividends granted between January 1, 2020 and the date of exercise, an explicit modelling of the dividend could not be included in the calculation.

The expected volatility of the AlzChem share was determined on the basis of the historical volatility of comparable companies with appropriate maturities. Since the present subscription rights (SAR) are not options and the subscription rights represent a payment in the amount of the share price valid at the time of exercise, the exercise price for the SAR is EUR 0.00.

#### Stock appreciation rights 2017

The Management Board members Ulli Seibel, Klaus Englmaier and Andreas Niedermaier had concluded Management Board contracts under which stock appreciation rights (SAR) were granted as a long-term incentive in fiscal year 2017. The granting of the SAR was dependent on the contribution of the shares in AlzChem Trostberg GmbH to AlzChem Group AG. One SAR granted an entitlement to cash payment depending on the development of the stock market price of AlzChem Group AG. A total of 2,250,000 SAR were granted to members of the Management Board in fiscal year 2017.

The SAR could only be exercised if the following exercise conditions were met:

Since January 1, 2020, the SAR can only be exercised if the average closing price of the company's share in the last 30 trading days before January 1, 2020 is EUR 0.75 or more above the average closing price of the AlzChem Group AG share in the 60 trading days following the date of contribution, whereby this average price must be at least EUR 2.50. A payout ceiling of EUR 2,950 thousand was defined for the beneficiaries in relation to the total LTI of the Management Board members.

The payout amount upon exercise of the SAR is calculated as the product of the number of SAR exercised and the average of the closing prices of the company's shares during the last 30 trading days prior to January 1, 2020 less the average of the closing prices of the shares of AlzChem Group AG during the 60 trading days since October 9, 2017 (inclusive).

As of December 31, 2018, the number of SAR granted was 2,250,000. The fair value was determined on the basis of a Monte Carlo model and the expense reported under personnel expenses was distributed on a straight-line basis from the grant date to the beginning of the exercise period. In the SFY 2018/II, personnel expenses of EUR 0 thousand

(2018 - reporting, unaudited: EUR 0 thousand) were recognized from this plan, which led to a provision of EUR 5 thousand. The valuation was based on the following parameters:

	12/31/2018
Remaining term (in years)	1.13
Expected volatility	25.18%
Risk-free interest rate	-0.72%
Dividend yield	2%
Exercise price	EUR 3.39
Share price at valuation date	EUR 2.22

The expected volatility of the AlzChem share was determined on the basis of the historical volatility of comparable companies with appropriate maturities. Since the present subscription rights (SAR) are not options and the subscription rights represent a payment in the amount of the share price valid at the time of exercise, the exercise price for the SAR is EUR 0.00.

With the conclusion of the new Management Board contracts in 2019 and the granting of the 'Stock Appreciation Rights 2019', the 'Stock Appreciation Rights 2017' expired without being used. The derecognition of the previously recognized provision resulted in income of EUR 5 thousand.

#### 34. RELATIONSHIPS WITH RELATED COMPANIES AND PERSONS

Related persons include persons in key positions of the AlzChem Group. Their names and remuneration are listed in note 32.

The companies controlled by the shareholders LIVIA Corporate Development SE, HDI Vier CE GmbH (both based in Munich) and four two na GmbH, Bichl, and companies controlled by their shareholders or legal representatives are considered related parties of the AlzChem Group.

No transactions were conducted with related companies in the reporting period.

#### 35. LITIGATION AND CLAIMS FOR DAMAGES

The AlzChem Group is not involved in any court or arbitration proceedings that could have a significant influence on the Group's position. The existing, altogether insignificant proceedings have not yet been concluded or management does not expect any significant obligations from them. In general, the exact amount of a possible obligation or claims cannot be reliably determined due to the high level of uncertainty associated with such proceedings.

#### 36. FEES FOR THE AUDITORS

The auditor of the consolidated financial statements of AlzChem as of December 31, 2019 was Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, Munich branch.

The auditor of the consolidated financial statements of AlzChem as of December 31, 2018 was Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt am Main, Munich branch.

Fees totaling EUR 200 thousand (SFY 2018/II: EUR 256 thousand; 2018 - reporting: EUR 488 thousand) were incurred in the past fiscal year 2019 for services rendered by the auditors of the consolidated financial statements within the meaning of sec. 318 HGB. This includes EUR 0 thousand (SFY 2018/II: EUR 3 thousand; 2018 - for information: EUR 1 thousand) attributable to SFY 2018/II.

in EUR thousand	07/01-12/31/2018	01/01-12/31/2018*	01/01-12/31/2019
Other audit and certification services	8	16	0
Audit services	242	448	200
Tax consultancy services	0	7	0
Other services	6	17	0
<b>Total</b>	<b>256</b>	<b>488</b>	<b>200</b>

\* Reporting, unaudited

The fees for other audit and certification services in the prior-year period are based on regulatory certification services in the energy sector. The tax advisory services in calendar year 2018 were incurred for the tax assessment of the fiscal unity formed for the first time. Other services in previous years include regulatory consulting services in the energy sector.

### 37. LIST OF SHAREHOLDINGS

The list of shareholdings of AlzChem Group AG in accordance with sec. 313 para. 2 HGB is as follows as of December 31, 2019:

Name of the company	Seat	Share in capital in %
Subsidiaries		
AlzChem Trostberg GmbH (formerly AlzChem AG)	Trostberg, Germany	100
Nigu Chemie GmbH	Waldkraiburg, Germany	100
AlzChem International GmbH	Trostberg, Germany	94
AlzChem Stahltechnik GmbH	Trostberg, Germany	100
AlzChem Nutrition GmbH	Trostberg, Germany	100
AlzChem Netz GmbH	Trostberg, Germany	100
AlzChem LLC	Atlanta, USA	100
AlzChem Shanghai Co. Ltd	Shanghai, China	100
Nordic Carbide AB	Sundsvall, Sweden	100
Edelife Distributing LLC	Atlanta, USA	100

The share in capital was calculated in accordance with sec. 16 AktG and thus includes shares held directly and indirectly by AlzChem Group AG.

### 38. EVENTS AFTER THE BALANCE SHEET DATE

After the end of the fiscal year and up to the date of preparation of the consolidated financial statements, no matters arose with a material effect on the net assets, financial position and results of operations.

### 39. CORPORATE GOVERNANCE

The Management Board and Supervisory Board of AlzChem Group AG have issued the declaration required by sec. 161 AktG as of December 31, 2019 and made it publicly available on the website at <https://www.alzchem.com/en/investor-relations/corporate-governance/declaration-conformity>.

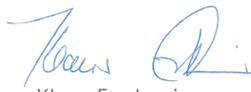
Trostberg, February 28, 2020

AlzChem Group AG

The Management Board



Andreas Niedermaier  
(CEO)



Klaus Englmaier  
(COO)



Dr. Georg Weichselbaumer  
(CSO)

# INDEPENDENT AUDITOR'S REPORT

## TO ALZCHEM GROUP AG, TROSTBERG

### AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

#### Audit opinions

We have audited the Consolidated Financial Statements of AlzChem Group AG, Trostberg, and its subsidiaries (the Group); these were comprised of the Consolidated Balance Sheet as of December 31, 2019, the Consolidated Statement of Comprehensive Income, the Consolidated Income Statement, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the fiscal year from January 1 to December 31, 2019, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the Group Management Report, which is combined with the Management Report (hereafter: combined management report), of AlzChem Group AG, Trostberg, for the fiscal year from January 1 to December 31, 2019. In accordance with German law, we have not audited the content of the components of the Group Management Report referred to in the "Other information" section of our Audit Report.

In our opinion based on the findings of our audit,

- the accompanying Consolidated Financial Statements comply in all material respects with IFRS as adopted by the EU and the additional requirements of German law pursuant to sec. 315e para. 1 HGB and give a true and fair view of the net assets, financial position and Group operating results as of December 31, 2019, and of its financial position for the fiscal year from January 1 to December 31, 2019, in accordance with these requirements; and
- the accompanying Combined Management Report provides a suitable understanding of the Group's position. In all material respects, the Combined Management Report is consistent with the Consolidated Financial Statements, complies with German law and accurately

presents the opportunities and risks of future development. Our Audit Report on the Combined Management Report does not extend to the above-mentioned components of the Combined Management Report, which have not been audited.

In accordance with sec. 322 para. 3.1 HGB, we declare that our audit has not led to any objections to the correctness of the Consolidated Financial Statements and the Combined Management Report.

#### Basis for audit opinions

We conducted our audit of the Consolidated Financial Statements and the Combined Management Report in accordance with sec. 317 HGB and the EU Auditor Regulation (537/2014; hereinafter "EU APrVO") and generally accepted German standards for auditing financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility in accordance with these regulations and principles is further described in the section of our Audit Report entitled "Responsibility of the auditor for the audit of the Consolidated Financial Statements and the Combined Management Report." We are independent of the Group in accordance with European and German commercial law and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we declare in accordance with sec. 10 para. 2f EU APrVO that we have not provided any prohibited non-audit services pursuant to sec. 5 para. 1 EU APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our Audit Report on the Consolidated Financial Statements and the Combined Management Report.

## Particularly important audit issues in the audit of the Consolidated Financial Statements

Particularly important audit issues are those which, in our opinion, were most significant in our audit of the Consolidated Financial Statements for the fiscal year from January 1 to December 31, 2019. These matters have been considered in connection with our audit of the Consolidated Financial Statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these matters.

In the following, we present the audit issues that we consider to be particularly important:

### Pension provisions

#### a) The risk for the consolidated financial statements

In the Consolidated Financial Statements of AlzChem Group AG, the balance sheet item "provisions for pensions and similar obligations" includes EUR 134.6 million (39% of the consolidated balance sheet total), which is the balance of the present value of the obligations from defined benefit plans for commitments to old-age, disability and surviving dependents' benefits in the amount of EUR 134.8 million and the fair value of the plan assets of EUR 0.2 million. Obligations from defined benefit plans are measured using the projected unit credit method in accordance with IAS 19, in particular assumptions regarding long-term salary and pension trends, average life expectancy and fluctuation. In addition, the discount rate as of the balance sheet date must be derived from the yield on high-quality corporate bonds with matching currencies and maturities that match the expected terms of the obligations. Changes in these valuation assumptions and experience-based adjustments are to be recognized as actuarial gains or losses in other comprehensive income. The company's disclosures on provisions for pensions and similar obligations are contained in sections V and VII (no. 21) of the Notes to the Consolidated Financial Statements for the fiscal year 2019. In our opinion, these matters were of particular importance for our audit because the recognition and measurement of these significant items are based to a significant extent on estimates and assumptions made by the legal representatives.

#### b) Auditing procedure and conclusions

Within the scope of our audit, we have evaluated the actuarial reports obtained from the respective Group companies and the professional qualifications of the external experts. We examined the contractual basis and the quantity structure. We assessed the actuarial parameters for appropriateness by means of plausibility checks. On the basis of the expert opinions, we have reproduced the presentations in the consolidated financial statements, particularly in the Notes to the Consolidated Financial Statements, and have checked the completeness and plausibility of the information provided. For the audit of the fair value of the plan assets, we had evidence from an insurance company. On the basis of our audit procedures, we were able to convince ourselves that the estimates and assumptions made by the legal representatives were justified and adequately documented.

### Other information

The legal representatives or the Supervisory Board are responsible for other information. The other information includes:

- the components of the Combined Management Report mentioned in the section "audit opinions" which have not been audited in terms of content,
- the Report of the Supervisory Board,
- the Responsibility Statement on the Annual Financial Statements and the Consolidated Financial Statements and the Responsibility Statement on the Combined Management Report,
- the remaining parts of the Annual Report, but not the Consolidated Financial Statements, not the components of the Combined Management Report included in the content audit, and not our associated Audit Opinion.

The Supervisory Board is responsible for the Report of the Supervisory Board. The legal representatives and the Supervisory Board are responsible for the Declaration pursuant to sec. 161 AktG on the German Corporate Governance Code, which forms part of the (Group) Corporate Governance Declaration contained in sec. 10 of the Combined Management Report. Apart from that, the legal representatives are responsible for the other information.

Our audit opinion on the Consolidated Financial Statements and the Combined Management Report does not extend to the other information, and accordingly, we do not express an audit opinion or any other form of conclusion in this regard.

In connection with our audit of the Consolidated Financial Statements, we have a responsibility to read the other information referred to above and evaluate whether the other information

- contain material inconsistencies with the Consolidated Financial Statements, with the components of the Combined Management Report that have been audited or with the knowledge gained from our audit, or
- appear to be substantially misrepresented in any other way.

If we conclude, based on the work we have performed, that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this context.

#### **Responsibility of the legal representatives and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report**

The legal representatives are responsible for the preparation of the Consolidated Financial Statements, which comply in all material respects with IFRS as adopted by the EU and the additional requirements of German law pursuant to sec. 315e para. 1 HGB, and for ensuring that the Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls that they have determined to be necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatements, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, where relevant, information about the Group's ability to continue as a going concern. Furthermore, they are responsible for accounting for the continuing operations

of the company on the basis of the going concern principle unless the Group intends to liquidate or to cease operations or there is no realistic alternative.

In addition, the legal representatives are responsible for the preparation of the Combined Management Report, which as a whole provides a suitable view of the Group's position and is consistent with the Consolidated Financial Statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary to enable the preparation of a Combined Management Report in accordance with the applicable German legal regulations and to provide sufficient suitable evidence for the statements made in the Combined Management Report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the Consolidated Financial Statements and the Combined Management Report.

#### **Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Combined Management Report**

Our objective is to obtain reasonable assurance as to whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, whether the Combined Management Report as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development in all material respects in accordance with the Consolidated Financial Statements and the findings of our audit, as well as to issue an audit opinion containing our audit opinions on the Consolidated Financial Statements and the Combined Management Report.

A reasonable assurance is a high degree of certainty, but does not guarantee that an audit conducted in accordance with sec. 317 HGB and the EU-APrVO and in compliance with the German generally accepted auditing standards established by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misrepresentations can result from

violations or inaccuracies and are considered material if it could reasonably be expected that they could individually or collectively influence the economic decisions of addressees made on the basis of these Consolidated Financial Statements and the Combined Management Report.

During the audit, we exercise due discretion and maintain a critical basic attitude. Beyond that

- we identify and assess the risks of material misstatement of the Consolidated Financial Statements and the Combined Management Report, whether due to fraud or error, plan and perform the audit procedures in response to these risks and obtain audit evidence sufficient and appropriate to provide a basis for our audit opinion. The risk that material misstatements will not be detected is greater for violations than for misstatements because violations may involve fraudulent interactions, falsification, intentional omissions, misrepresentations, or the disabling of internal controls.
- we obtain an understanding of the internal control system relevant to the audit of the Consolidated Financial Statements and of the procedures and measures relevant to the audit of the Combined Management Report in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- we express an opinion on the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the reasonableness of accounting estimates made by management.
- we conclude on the appropriateness of the accounting policies adopted by the company's legal representatives and whether, based on the audit evidence obtained, there is any material uncertainty relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit opinion to the related disclosures in the Consolidated Financial Statements and the Combined Management Report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit

evidence obtained up to the date of our audit opinion. However, future events or circumstances may result in the Group being unable to continue its operations.

- we assess the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures and whether the Consolidated Financial Statements present the underlying business transactions and events in such a way that the Consolidated Financial Statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs as adopted by the EU and the additional requirements of German law pursuant to sec. 315e para. 1 HGB.
- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to enable us to express an audit opinion on the Consolidated Financial Statements and the Combined Management Report. We are responsible for instructing, monitoring and performing the audit of the Consolidated Financial Statements. We are solely responsible for our audit opinions.
- we assess the consistency of the Combined Management Report with the Consolidated Financial Statements, its compliance with the law, and the view of the Group's situation conveyed by it.
- we perform audit procedures on the future-oriented information presented by the legal representatives in the Combined Management Report. Based on sufficient and appropriate audit evidence, we verify in particular the significant assumptions underlying the forward-looking statements made by the legal representatives and assess whether the forward-looking statements are derived appropriately from these assumptions. We do not express an independent audit opinion on the forward-looking statements or the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for supervision the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We make a declaration to those responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence and the safeguards that have been put in place to protect it.

From the matters we have discussed with those responsible for supervision, we determine those matters that were most significant in the audit of the Consolidated Financial Statements for the current reporting period and are therefore the most significant matters. We describe these matters in our audit opinion, unless laws or regulations preclude public disclosure of the matters.

## **OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Other information according to sec. 10 EU-APrVO**

We were elected as auditors of the Consolidated Financial Statements by the Annual General Meeting on May 14, 2019. We were appointed by the Supervisory Board on September 12, 2019. We have been the auditors of the Consolidated Financial Statements of AlzChem Group AG, Trostberg, since fiscal year 2019.

We declare that the audit opinions contained in this Audit Report are consistent with the additional report to the Audit Committee in accordance with sec. 11 EU-APrVO (Audit Report).

## **RESPONSIBLE AUDITOR**

The auditor responsible for the audit is Ms. Olga Resnik.

Munich, February 28, 2020

Ebner Stolz GmbH & Co. KG  
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Josef Eberl  
Certified Public Accountant

Olga Resnik  
Certified Public Accountant



**STRENGTH**  
THROUGHOUT THE DAY

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## LIST OF ABBREVIATIONS

AB	Aktiebolag
EUR	Euro
AG	Aktiengesellschaft (stock corporation)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
CPO	Chief Projects Officer
CSO	Chief Sales Officer
CNY	Renminbi Yuan
DBO	Defined Benefit Obligation
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EU	European Union
GmbH	Gesellschaft mit beschränkter Haftung (Limited Liability Company)
HGB	Handelsgesetzbuch (German Commercial Code)
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
JPY	Yen
LLC	Limited Liability Company
Ltd.	Limited
LTI	Long Term Incentive
mn	million
No.	Number
OCI	Other Comprehensive Income
SFY	Short fiscal year
SAR	Stock Appreciation Rights
S.à.r.l.	société à responsabilité limitée (Limited Liability Company)
SEK	Swedish Krona
SIC	Standing Interpretations Committee
USA	United States of America
USD	United States Dollar

# IMPRINT

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iStock / da-kuk

# FINANCIAL CALENDAR 2020

March 24, 2020	Annual Report 2019 Conference Call - Annual Report 2019
April 12 to May 11, 2020	Quiet Period*
May 12, 2020	Q1 Quarterly Statement 2020 Conference Call - Q1 Quarterly Statement 2020
May 19, 2020	Annual General Meeting 2020
July 11 to August 10, 2020	Quiet Period
August 11, 2020	Half-year Financial Report 2020 Conference Call - Half-year Financial Report 2020
October 11 to November 10, 2020	Quiet Period
November 11, 2020	Q3 Quarterly Statement 2020 Conference Call - Q3 Quarterly Statement 2020

\* During a "quiet period", AlzChem Group AG only communicates with the capital market to a limited extent before publishing quarterly and full-year results.

# REMARKS

This report may contain forward-looking statements based on current assumptions and forecasts made by the management of AlzChem Group AG. Such statements are subject to risks and uncertainties. These and other factors may cause actual results, financial position, development or performance of the company to differ materially from the estimates made here. The company assumes no liability whatsoever to update such forward-looking statements or to conform them to future events or developments.

Only the German version of this Annual Report is legally binding.

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